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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF
PINEVIEW WATER COMPANY, INC. FOR
APPROVAL OF AN INCREASE IN ITS WATER
RATES.

DOCKET NO. W-01676A-08-0366

**STAFFS NOTICE OF FILING
DIRECT TESTIMONY**

The Utilities Division of the Arizona Corporation Commission ("Staff") hereby provides notice of filing of the Direct Testimony of Jeffrey M. Michlik, and Dorothy M. Hains in the above-referenced matter.

RESPECTFULLY SUBMITTED this 3rd day of December, 2009.

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Phoenix, Arizona 85008

Copy of the foregoing mailed this
3rd day of December, 2009 to:

Ronald L. McDonald, General Manager
PINEVIEW WATER COMPANY
5198 Cub Lake Road
Show Low, Arizona 92801

Arizona Corporation Commission
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DIRECT

TESTIMONY

OF

JEFFREY M. MICHLIK

DOROTHY M. HAINS

DOCKET NO. W-01676A-08-0366

**IN THE MATTER OF THE APPLICATION
OF PINVIEW WATER COMPANY, INC. FOR
APPROVAL OF AN INCREASE IN ITS WATER RATES**

DECEMBER 03, 2009

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)
PINEVIEW WATER COMPANY, INC.)
FOR APPROVAL OF AN INCREASE IN ITS)
WATER RATES.)
_____)

DOCKET NO. W-01676A-08-0366

DIRECT

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 03, 2009

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**EXECUTIVE SUMMARY
PINEVIEW WATER COMPANY, INC.
DOCKET NO. W-01676A-08-0366**

Pineview Water Company, Inc. ("Company") is an Arizona public service corporation engaged in providing water utility services in a portion of Navajo County, Arizona. The Company served approximately 1,175 water customers within its certificated area located southeast of Show Low, Arizona. The Company's previous rate case was based on a test year ended December 31, 2003. In Decision No. 67989, Finding of Fact No. 39 recommended the Company file a new rate case within three years of the Decision, dated July 18, 2005.

Rate Application:

The Company did not propose a rate increase or decrease in its rates at this time. The reason the Company filed a rate application was to be in compliance with Decision No. 67989. The Company proposes to maintain its current rates that produce operating revenue of \$675,251 resulting in operating income of \$42,447. The Company also proposes a fair value rate base ("FVRB") of \$957,645, which is its original cost rate base ("OCRB").

Staff recommends rates that would increase operating revenue by \$40,180 to produce operating revenue of \$715,431 resulting in operating income of \$71,573, or a 5.95 percent increase over adjusted test year revenue of \$675,251. Staff recommends an OCRB of \$441,433 which is its FVRB. Staff recommends using an operating margin of 10.00 percent to produce an appropriate revenue requirement.

Rate Design:

As the Company is not proposing a rate increase or decrease at this time, it has not proposed a rate design.

Staff recommends an inverted three-tier rate design for 5/8-inch meters and 3/4-inch residential metered customers, and an inverted two-tier rate structure for all other meter sizes (i.e. commercial, residential and industrial). The recommended rate structure conforms to those regularly adopted by the Commission in recent years. The typical 3/4-inch meter residential bill with median usage of 2,139 gallons would decrease by \$0.68, or 2.76 percent, from \$24.56 to \$23.88. This results from Staff lowering the first tier and increasing the second and third tier rates. Staff's rate design encourages customers to use water efficiently.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst V.

A. In my capacity as a Public Utilities Analyst V, I analyze and examine accounting, financial, statistical and other information and prepare reports based on my analyses that present Staff's recommendations to the Commission on utility revenue requirements, rate design and other matters. I also provide expert testimony on these same issues.

Q. Please describe your educational background and professional experience.

A. In 2000, I graduated from Idaho State University, receiving a Bachelor of Business Administration Degree in Accounting and Finance, and I am a Certified Public Accountant with the Arizona State Board of Accountancy. I have attended the National Association of Regulatory Utility Commissioners' ("NARUC") Utility Rate School, which presents general regulatory and business issues related to utility ratemaking.

I joined the Commission as a Public Utilities Analyst in May of 2006. Prior to employment with the Commission, I worked four years for the Arizona Office of the Auditor General as a Staff Auditor, and one year in public accounting as a Senior Auditor.

Q. What is the scope of your testimony in this case?

A. I am presenting Staff's analysis and recommendations regarding Pineview Water Company, Inc.'s ("Company") application for no increase or decrease in its rates and

1 charges for water utility service within Navajo County, Arizona. I am presenting
2 testimony and schedules addressing rate base, operating revenues and expenses, revenue
3 requirement, and rate design. Mrs. Dorothy Hains is presenting Staff's engineering
4 analysis and related recommendations.

5
6 **Q. What is the basis of your testimony in this case?**

7 A. I performed a regulatory audit of the Company's application and records. The regulatory
8 audit consisted of examining and testing financial information, accounting records, and
9 other supporting documentation and verifying that the accounting principles applied were
10 in accordance with the Commission adopted NARUC Uniform System of Accounts
11 ("USOA").

12
13 **BACKGROUND**

14 **Q. Please review the background of this application.**

15 A. The Company is an Arizona "C" Corporation engaged in the business of providing water
16 utility services to approximately 1,175 customers in its certificated area located southeast
17 of the Town of Show Low in Navajo County, Arizona. The Company's last rate case was
18 approved in Decision No. 67989, dated July 18, 2005.

19
20 **CONSUMER SERVICES**

21 **Q. Please provide a brief history of customer complaints received by the Commission**
22 **regarding the Company. Additionally, please discuss customer responses to the**
23 **Company's rate case filing.**

24 A. A research of the Commission's Consumer Service database for the Company from
25 January 1, 2006, to November 4, 2009, revealed the following:

1 2006 – Two Complaints (One Quality of Service, One Billing), zero inquires, and zero
2 opinions.

3
4 2007 – One Complaint (Quality of Service), zero inquires, and zero opinions.

5
6 2008 – Two Complaints (One Billing, One Disconnect), zero inquires, and zero opinions.

7
8 2009 – Three Complaints (Two Quality of Service, One Repair), zero inquires, and one
9 opinion (opposed to the rate case).

10
11 All complaints and inquiries have been resolved and closed.

12
13 **SUMMARY OF FILING, RECOMMENDATIONS, AND ADJUSTMENTS.**

14 **Q. Please summarize the Company's proposals in this filing.**

15 A. The Company did not propose an increase or decrease in its rates at this time. The reason
16 the Company filed a rate application was to be in compliance with Decision No. 67989.
17 The Company proposes to maintain its current rates that produce operating revenue of
18 \$675,251 resulting in operating income of \$42,447. The Company also proposes a fair
19 value rate base ("FVRB") of \$957,645, which is its original cost rate base ("OCRB").

20
21 **Q. Please summarize Staff's recommendations.**

22 A. Staff recommends rates that would increase operating revenue by \$40,180 to produce
23 operating revenue of \$715,431 resulting in operating income of \$71,573, or a 5.95 percent
24 increase over adjusted test year revenue of \$675,251. Staff recommends an OCRB of
25 \$441,433 which is its FVRB. Staff recommends using an operating margin of 10.00
26 percent to produce an appropriate revenue requirement.

1 **Q. Would Staff like to make any additional comments?**

2 A. Yes. On July 18, 2008, the Company filed an application using a test year ending March
3 31, 2008. The Company's previous billing program had problems that affected test year
4 revenues and, consequently, Staff's recommended revenues. Because the Company could
5 not resolve these problems, it asked to update its test year from March 31, 2008, to
6 December 31, 2008, so that only accurate data from the current billing system could be
7 used. Staff did not object to the change in the test year. A procedural order was issued on
8 September 10, 2009, affirming the new test year and resetting the hearing schedule.

9
10 **Q. What is the test year end in this case?**

11 A. December 31, 2008.

12
13 **Q. Did Staff make adjustments to its rate base and operating income to reflect the new**
14 **test year?**

15 A. Yes. As all parties agreed at the Procedural Conference, Staff updated its schedules based
16 on the Company's 2008 Annual Report that was submitted to the Commission and its
17 2008 General Ledger.

18
19 **Q. Please summarize the rate base adjustments addressed in your testimony.**

20 A. My testimony addresses the following issues:

21 Plant Not Used and Useful – This adjustment decreases Plant in Service by \$436,585 to
22 remove plant that was deemed not used and useful.

23
24 Reclassification of Plant – This adjustment removes \$4,491 of plant costs incorrectly
25 included in account number 307, "Wells and Springs," and reclassifies this amount to
26 account number 311, "Electric Pumping Equipment." In addition, this adjustment

1 removes \$1,856 of plant costs incorrectly included in account 331, "Transmission and
2 Distribution Mains," and reclassifies this amount to account number 334 "Meters."

3
4 Accumulated Depreciation – This adjustment decreases accumulated depreciation by
5 \$4,601 based upon the adjustments Staff made to plant in service.

6
7 Customer Deposits – This adjustment increases customer deposits by \$11,744 to include
8 all customer deposits.

9
10 Working Capital – This adjustment removes \$68,638 from working capital allowance.

11
12 **Q. Please summarize the operating revenue and expense adjustments addressed in your**
13 **testimony.**

14 **A.** My testimony addresses the following issues:

15 Office and Supplies Expense – This adjustment removes \$201 from Supplies Expense
16 related to food and beverage items that are not needed for the provision of services.

17
18 Water Testing Expense – This adjustment increases expense by \$435 to reflect water
19 testing costs as determined by Staff.

20
21 Rate Case Expense – This adjustment decreases rate case expense by \$9,979 to remove the
22 expense item as it is not an ongoing expense.

23
24 Depreciation Expense – This adjustment decreases depreciation expense by \$7,700 to
25 adjust depreciation based on Staff's plant in service numbers.

26

1 Property Tax Expense – This adjustment increases property tax expense by \$2,142 to
2 adjust property taxes to Staff's adjusted test year amount.

3
4 Income Tax Expense – This adjustment increases income tax expense by \$12,424 to
5 reflect Staff's recommended level based on federal and state income taxes.

6
7 **RATE BASE**

8 **Fair Value Rate Base**

9 **Q. Did the Company prepare a schedule showing the elements of Reconstruction Cost**
10 **New Rate Base?**

11 **A. No, the Company did not. The Company's filing treats the OCRB the same as the FVRB.**
12

13 **Rate Base Summary**

14 **Q. Please summarize Staff's adjustments to the Company's rate base shown on**
15 **Schedules JMM-W3 and JMM-W4.**

16 **A. Staff's adjustments to the Company's rate base resulted in a net decrease of \$512,366,**
17 **from \$957,645 to \$445,278. This decrease was primarily due to: (1) removal of plant that**
18 **was not serving customers during the test year, (2) adjustments to accumulated**
19 **depreciation, (3) adjustments to customer deposits, and (4) removal of working capital.**
20

21 ***Rate Base Adjustment No. 1 – Plant Not Used and Useful***

22 **Q. Did Staff make an adjustment to plant for plant items that were not used and useful?**

23 **A. Yes.**

1 **Q. What adjustment did Staff make?**

2 A. Staff identified \$436,585 in plant that was not used and useful as shown on Schedule
3 JMM-5.

4
5 **Q. Why did Staff make this adjustment?**

6 A. Staff inspected the entire system and identified certain individual plant items that were not
7 serving customers during the test year.

8
9 **Q. What is Staff's recommendation?**

10 A. Staff recommends decreasing plant in service by \$436,585, from \$4,669,687 to
11 \$4,233,102, to remove the plant from rate base that was not used and useful during the test
12 year, as shown on Schedules JMM-4 and JMM-5.

13
14 ***Rate Base Adjustment No. 2 – Reclassification of Plant***

15 **Q. Did Staff make an adjustment to reclassify plant?**

16 A. Yes.

17
18 **Q. What adjustment did Staff make?**

19 A. The Company incorrectly included plant costs incurred for distribution and reservoirs in
20 accounts numbers 304, "Structures and Improvements," and 331, "Transmission and
21 Distribution Mains."

22
23 **Q. Why did Staff make this adjustment?**

24 A. Staff inspected the entire system and identified plant in service that had been classified
25 incorrectly.

26

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends reclassifying \$4,491 of plant costs incorrectly included in account
3 number 307, "Wells and Springs," and reclassifying this amount to account number 311,
4 "Electric Pumping Equipment." In addition, Staff recommends reclassifying \$1,856 of
5 plant costs incorrectly included in account 331, "Transmission and Distribution Mains,"
6 and reclassifies this amount to account number 334, "Meters," as shown on Schedules
7 JMM-4 and JMM-6.

8

9 ***Rate Base Adjustment No. 3 – Accumulated Depreciation***

10 **Q. Did Staff make an adjustment to Accumulated Depreciation?**

11 A. Yes.

12

13 **Q. What adjustment did Staff make?**

14 A. Staff adjusted accumulated depreciation based on its aforementioned plant adjustments.

15

16 **Q. Why did Staff make this adjustment?**

17 A. Staff adjusted accumulated depreciation to reflect the Staff-recommended plant balances
18 adjusted for removal of not used and useful plant and for reclassification of plant.

19

20 **Q. What is Staff's recommendation?**

21 A. Staff recommends decreasing accumulated depreciation by \$4,601, from \$1,625,282 to
22 \$1,620,681 as shown on Schedules JMM-4 and JMM-7 page 1 of 7.

23

24 **Q. Would Staff like to make any additional comments about accumulated depreciation?**

25 A. Yes. Staff restated the Company's beginning accumulated depreciation balance.

26

1 **Q. Why did Staff make this adjustment?**

2 A. Upon review of the accumulated depreciation account balances determined in the
3 Company's records, Staff discovered that two of the accounts had negative balances and
4 one of the plant accounts had been over-depreciated. Staff's adjustment revises the two
5 negative balances to reflect zero balances and revises the over-depreciated balance to
6 reflect the proper amount of accumulated depreciation.

7
8 **Q. What is Staff's recommendation?**

9 A. Staff recommends increasing the Company's beginning accumulated depreciation balance
10 by \$16,919 from \$1,075,069 to \$1,091,988, as shown on Schedule JMM-7 page 2 of 7.

11
12 ***Rate Base Adjustment No. 4 – Customer Deposits***

13 **Q. Did Staff make an adjustment to customer deposits?**

14 A. Yes.

15
16 **Q. What adjustment did Staff make?**

17 A. Staff increased Customer Deposits by \$11,744.

18
19 **Q. Why did Staff make this adjustment?**

20 A. Staff identified some Customer Deposits that were made in the test year but were not
21 included in the rate application. Specifically, the Company only included customer meter
22 deposits, and no other Customer Deposits.

23
24 **Q. What is Staff's recommendation?**

25 A. Staff recommends increasing Customer Deposits by \$11,744 from \$116,769 to \$128,512,
26 as shown on Schedules JMM-4 and JMM-8.

Rate Base Adjustment No. 5 – Cash Working Capital

Q. Did Staff make an adjustment for Cash Working Capital?

A. Yes.

Q. What adjustment did Staff make?

A. Staff removed \$68,638 from Cash Working Capital.

Q. Why did Staff make this adjustment?

A. The Company is proposing a \$68,638 allowance for cash working capital based on a simple income statement approach, which takes 1/8 of the amount presented on the income statement for operations and maintenance expense and 1/24 of the amount for pumping power. This methodology is known as the formula method. Staff typically only allows cash working capital allowances calculated by the formula method for small class D and E utilities. The formula method always produces a positive cash working capital need. Utilities classified as A, B, or C are much larger and Staff believes that the formula method does not accurately reflect the related cash working capital needs. Typically Staff finds that proper lead/lag studies usually produce a negative cash working capital need.

Q. What recommendation is Staff making?

A. Staff is recommending that the allowance for cash working capital be disallowed, as a utility of this size should have presented a lead-lag study to establish an estimate of cash working capital. As a result, Staff is recommending a zero balance for cash working capital. Staff recommends decreasing working capital allowance by \$68,638 from \$68,638 to \$0, as shown on Schedules JMM-4 and JMM-9.

OPERATING INCOME

Operating Income Summary

Q. What are the results of Staff's analysis of test year revenues, expenses, and operating income?

A. Staff's analysis resulted in adjusted test year operating revenues of \$675,251, operating expenses of \$629,925 and operating income of \$45,326, as shown on Schedules JMM-10 and JMM-11. Staff made six adjustments to operating expenses.

Operating Income Adjustment No. 1 – Supplies Expense

Q. Did Staff make an adjustment to supplies expense?

A. Yes.

Q. What adjustment did Staff make?

A. Staff's adjustment decreased supplies expense by \$201.

Q. Why did Staff make this adjustment?

A. Food and beverage costs were included in this account, and these costs are not necessary to the provision of water services.

Q. What is Staff's recommendation?

A. Staff recommends decreasing supplies expense by \$201 from \$8,857 to \$8,656, as shown on Schedules JMM-11 and JMM-12.

Operating Income Adjustment No. 2 – Water Testing Expense

Q. Did Staff make an adjustment to water testing expense?

A. Yes.

1 **Q. What adjustment did Staff make to water testing expense?**

2 A. Staff increased water testing expense by \$435.

3

4 **Q. Why did Staff make this adjustment?**

5 A. Staff adjusted water testing expense to reflect the level of costs as shown in the
6 Engineering Report.

7

8 **Q. What is Staff's recommendation?**

9 A. Staff recommends increasing water testing cost by \$435 from \$4,968 to \$5,403, to better
10 reflect the Company's ongoing level of water testing cost. Please see Schedules JMM-11
11 and JMM-13.

12

13 *Operating Income Adjustment No. 3 – Rate Case Expense*

14 **Q. Did Staff make an adjustment to rate case expense?**

15 A. Yes.

16

17 **Q. What adjustment did Staff make?**

18 A. Staff's adjustment decreased rate case expense by \$9,979.

19

20 **Q. Why did Staff make this adjustment?**

21 A. Based on a Staff data request, the Company stated that these costs were related to legal
22 fees incurred in the last rate case. Therefore, the \$9,979 should have been categorized as
23 outside legal expenses in the rate case application. In any event, the remaining \$9,979 in
24 legal fees is now paid off and the Company has not requested rate case fees for this case.
25 As such, this is no longer representative of the Company's ongoing legal expenses. This
26 expense should be removed.

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends decreasing rate case expense by \$9,979, from \$9,979 to \$0, as shown
3 on Schedules JMM-11 and JMM-14. The Company prepared this case as part of its
4 normal duties and salaries.

5
6 *Operating Income Adjustment No. 4 – Depreciation Expense*

7 **Q. Did Staff make an adjustment to depreciation expense?**

8 A. Yes.

9
10 **Q. What adjustment did Staff make?**

11 A. Staff adjusted depreciation expense to reflect the adjustments Staff made to plant in
12 service based on the information provided in Staff's Engineering Report.

13
14 **Q. What is Staff's recommendation?**

15 A. Staff's adjustment decreases depreciation expense by \$7,700 from \$139,461 to \$131,761.
16 Please see Schedule JMM-11 and JMM-15 for Staff's calculation.

17
18 *Operating Income Adjustment No. 5 – Property Tax*

19 **Q. Did Staff make an adjustment to property tax?**

20 A. Yes.

21
22 **Q. What adjustment does Staff recommend for test year property tax expense?**

23 A. Staff's adjustment increased property tax expense by \$2,142 from \$25,327 to \$27,469,
24 based upon Staff's adjusted test year revenues. Please see Schedule JMM-11 and Column
25 A on Schedule JMM-16.

1 **Q. What does Staff recommend for property tax expense on a going-forward basis?**

2 A. Staff recommends increasing property tax expense by \$545 from \$27,469 to \$28,013,
3 based upon Staff's recommended revenues. Please see Schedule JMM-10 and Column B
4 on Schedule JMM-16.

5
6 ***Operating Income Adjustment No. 6 – Income Tax***

7 **Q. Did Staff make an adjustment to Income Tax?**

8 A. Yes.

9
10 **Q. What adjustment did Staff make?**

11 A. Staff increased income tax expense by \$12,424.

12
13 **Q. Why did Staff make this adjustment?**

14 A. Based on Staff's other adjustments and application of state and federal income tax.

15
16 **Q. What is Staff's recommendation?**

17 A. Staff's adjustment increased income tax expense by \$12,424 from \$45 to \$12,469. Please
18 see Schedule JMM-11 and JMM-17 for Staff's calculation.

19
20 **Q. What does Staff recommend for income tax expense on a going-forward basis?**

21 A. Staff recommends increasing income tax expense by \$13,388 from \$12,469 to \$25,857,
22 based upon Staff's recommended revenues. Please see Schedule JMM-10, Column D.

REVENUE REQUIREMENT

Q. How did Staff determine its recommended operating revenue?

A. Staff utilized an operating margin instead of a rate of return on rate base to determine the revenue requirement. Based on Staff's numerous adjustments to plant in service and accumulated depreciation, the Company's rate base is not sufficient to produce an appropriate revenue requirement using rate of return. Therefore, Staff utilized an operating margin of 10 percent to determine the revenue requirement.

RATE DESIGN

Q. Have you prepared a Schedule summarizing the present, Company-proposed, and Staff-recommended rates and service charges?

A. Yes. A summary of the present, Company-proposed, and Staff-recommended rates and service charges are provided on Schedule JMM-18.

Q. Would you please summarize the present monthly minimum rate design?

A. The present monthly minimum charges by meter size are as follows: 5/8-inch is \$17.93; 3/4-inch is \$27.00; 1-inch is \$49.00; 1½-inch is \$92.00; 2-inch is \$145.00; 3-inch is \$285.00; 4-inch is \$448.25; 6-inch is \$896.50; 8-inch is \$1,793.00; and 10-inch is \$2,689.50. The charge for construction water per 1,000 gallons is \$4.75.

Q. Would you please summarize the Company's proposed rate design?

A. As the Company is not proposing a rate increase or decrease at this time, the Company has not provided a rate design.

1 **Q. Would you please summarize Staff's recommended rate design?**

2 A. Staff's recommended monthly minimum charges for all customer classes are as follows:
3 5/8-inch is \$18.00; 3/4-inch is \$27.00; 1-inch is \$45.00; 1½-inch is \$90.00; 2-inch is
4 \$144.00; 3-inch is \$288.00; 4-inch is \$450.00; 6-inch is \$900.00; 8-inch is \$1,440.00; and
5 10-inch is \$2,070.00. The charge for construction water per 1,000 gallons would be
6 \$4.93.

7
8 Staff uses an inverted tier rate design that consists of three tiers for the 5/8 x 3/4-inch
9 residential commodity rate of \$2.75 per thousand gallons for zero to 3,000 gallons, \$4.00
10 per thousand gallons for 3,001 to 10,000 gallons, and \$4.90 per thousand gallons for any
11 consumption over 10,000 gallons. Staff's larger residential and commercial commodity
12 rates have two tiers and vary by meter size, set at \$4.00 per thousand gallons for the first
13 tier, and \$4.90 per thousand gallons for any consumption over the first tier.

14
15 **Q. What is the rate impact on a typical 3/4-inch meter residential customer?**

16 A. The typical 3/4-inch meter residential customer with a median usage of 2,139 gallons
17 would experience a \$0.68 or a 2.76 percent decrease in his monthly bill, from \$24.56 to
18 \$23.88, under Staff's recommended rates. A typical bill analysis is provided on Schedule
19 JMM-19.

20
21 **Q. What water system service line and meter installation charges, and service charges**
22 **does Staff recommend?**

23 A. A comparison of the current charges for water system service line and meter installation
24 charges, and service charges, as well as the Company's proposed changes and Staff's
25 recommended changes, are presented on Schedule JMM-18. These charges are within the
26 range that Staff typically finds to be reasonable and customary charges.

1 **Q.** Does this conclude your direct testimony?

2 **A.** Yes, it does.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 957,645	\$ 445,278
2	Adjusted Operating Income (Loss)	\$ 42,447	\$ 45,326
4	Current Rate of Return (L2 / L1)	4.43%	NM
5	Required Operating Income	N/A	\$ 71,573
6	Required Operating Margin	N/A	10.00%
7	Required Rate of Return on Fair Value Rate Base	N/A	N/A
8	Operating Income Deficiency	N/A	\$ 26,247
9	Gross Revenue Conversion Factor	N/A	1.5308
10	Increase in Gross Revenue Requirement	N/A	\$ 40,180
11	Adjusted Test Year Revenue	\$ 675,251	\$ 675,251
12	Proposed Annual Revenue (L10 + L11)	N/A	\$ 715,431
13	Required Increase in Revenue (%)	N/A	5.95%
14	Rate of Return on Rate Base (L5 / L1)	N/A	16.07%

NM = Not Meaningful

N/A = Not Applicable

References:

Column [A]: Company Schedule A-1, Adjusted for Updated Test Year.

Column (B): Staff Schedules JMM-3 and JMM-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Billings	1.000000			
2	Uncollectible Factor	0.000000			
3	Revenues	1.000000			
4	Less: Combined Federal, State & Property Tax Rate (L18)	0.346756			
5	Subtotal (L3 - L4)	0.653244			
6	Revenue Conversion Factor (L1 / L5)	1.530821			
<u>Calculation of Effective Tax Rate:</u>					
7	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
8	Arizona State Income Tax Rate	6.9680%			
9	Federal Taxable Income (L7 - L8)	93.0320%			
10	Applicable Federal Income Tax Rate (Line 43)	28.8176%			
11	Effective Federal Income Tax Rate (L9 x L10)	26.8096%			
12	Combined Federal and State Income Tax Rate (L8 + L11)		33.7776%		
<u>Calculation of Effective Property Tax Rate:</u>					
13	Unity	100.0000%			
14	Combined Federal & State Income Tax Rate	33.7776%			
15	One Minus Combined Income Tax Rate	66.22237%			
16	Property Tax Factor	1.35597%			
17	Effective Property Tax Rate (L15 x L16)		0.89796%		
18	Combined Federal, State Income & Property Tax Rate (L12 + L17)			34.6756%	
19	Required Operating Income (Schedule JMM-1, Line 5)	\$ 71,573			
20	Adjusted Test Year Operating Income (Loss) (Schedule JMMI-11, Line 35)	\$ 45,326			
21	Required Increase in Operating Income (L19 - L20)	\$ 26,247	\$ 26,247		
22	Income Taxes on Recommended Revenue (Col. (D), L42)	\$ 25,857			
23	Income Taxes on Test Year Revenue (Col. (B), L42)	\$ 12,469			
24	Required Increase in Revenue to Provide for Income Taxes (L22 - L23)		\$ 13,388		
25	Property Tax with Recommended Revenue (JMM-16, Col B, L21)	\$ 28,013			
26	Property Tax on Test Year Revenue (JMM-16, Col A, L21)	\$ 27,469			
27	Increase in Property Tax Due to Increase in Revenue (L25-L26)		\$ 545		
28	Required Increase in Revenue (L21 + L24 + L27)			\$ 40,180	
<u>Calculation of Income Tax:</u>					
		Test Year		Staff Recommended	
29	Revenue (Schedule JMM-10, Columns C and E)	\$ 675,251		\$ 715,431	
30	Less: Operating Expenses Excluding Income Taxes	\$ 617,456		\$ 618,001	
31	Less: Synchronized Interest	\$ -		\$ -	
32	Arizona Taxable Income (L29 - L30 - L31)	\$ 57,795		\$ 97,430	
33	Arizona State Income Tax Rate	6.968%		6.968%	
34	Arizona Income Tax (L32 x L33)		\$ 4,027		\$ 6,789
35	Federal Taxable Income (L32 - L34)	\$ 53,768		\$ 90,641	
36	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500		\$ 7,500	
37	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ 942		\$ 6,250	
38	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ 5,318	
39	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ -	
40	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
41	Total Federal Income Tax		\$ 8,442		\$ 19,068
42	Combined Federal and State Income Tax (L34 + L41)		\$ 12,469		\$ 25,857
43	Applicable Federal Income Tax Rate [Col. (D), L35 - Col. (B), L35] / [Col. (C), L41 - Col. (A), L41]				28.8176%

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 4,669,687		\$ 4,233,102
2	Less: Accumulated Depreciation	1,625,282		1,620,681
3	Net Plant in Service	<u>\$ 3,044,405</u>		<u>\$ 2,612,420</u>
<u>LESS:</u>				
4	Contributions in Aid of Construction (CIAC)	\$ 278,641		\$ 278,641
5	Less: Accumulated Amortization	10,488		\$ 10,488
6	Net CIAC	<u>268,153</u>		<u>\$ 268,153</u>
7	Advances in Aid of Construction (AIAC)	1,770,477		1,770,477
8	Customer Deposits	116,769	4	128,512
9	Deferred Income Tax Credits	-		-
<u>ADD:</u>				
9	Unamortized Debt Issuance Costs	68,638	5	-
10	Deffered Regulatory Assets	-		-
11	Original Cost Rate Base	<u>\$ 957,645</u>		<u>\$ 445,278</u>

References:

Column [A]: Company Application, Adjusted for Updated Test Year.
Column [B]: Schedule JMM-4
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Plant Not Used And Useful Ref. Sch JMM-5	[C] ADJ #2 Reclassification of Plant Ref. Sch JMM-6	[D] ADJ #3 Accumulated Depreciation Ref. Sch JMM-7	[E] ADJ #4 Customer Deposits Ref. Sch JMM-8	[F] ADJ #5 Cash Working Capital Ref. Sch JMM-9	[G] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>									
1		Organization Cost	\$ -	-	-	\$ -	-	\$ -	-
2	301	Franchise Cost	-	-	-	-	-	-	-
3	302	Land and Land Rights	33,498	-	-	-	-	-	33,498
4	303	Structures and Improvements	97,549	-	-	-	-	-	97,549
5	304	Collecting and Impounding Res.	-	-	-	-	-	-	-
6	305	Lake River and Other Intakes	-	-	-	-	-	-	-
7	306	Wells and Springs	377,071	(69,947)	(4,491)	-	-	-	302,633
8	307	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-
9	308	Supply Mains	-	-	-	-	-	-	-
10	309	Power Generation Equipment	-	-	-	-	-	-	-
11	310	Electric Pumping Equipment	230,200	-	4,491	-	-	-	234,691
12	311	Water Treatment Equipment	3,553	-	-	-	-	-	3,553
13	320	Water Treatment Plant	-	-	-	-	-	-	-
14	330	Distribution Reservoirs & Standpipe	649,885	(352,253)	-	-	-	-	297,632
15	331	Transmission and Distribution Mains	2,668,587	(14,385)	(1,856)	-	-	-	2,652,345
16	333	Services	18,538	-	-	-	-	-	18,538
17	334	Meters	232,155	-	1,856	-	-	-	234,011
18	335	Hydrants	177,913	-	-	-	-	-	177,913
19	336	Backflow Prevention Devices	-	-	-	-	-	-	-
20	339	Other Plant and Miscellaneous Equipment	25,964	-	-	-	-	-	25,964
21	340	Office Furniture and Fixtures	45,864	-	-	-	-	-	45,864
22	341	Transportation Equipment	63,848	-	-	-	-	-	63,848
23	342	Stores Equipment	42,557	-	-	-	-	-	42,557
24	343	Tools and Work Equipment	-	-	-	-	-	-	-
25	344	Laboratory Equipment	-	-	-	-	-	-	-
26	345	Power Operated Equipment	2,083	-	-	-	-	-	2,083
27	346	Communications Equipment	-	-	-	-	-	-	-
28	347	Miscellaneous Equipment	422	-	-	-	-	-	422
29	348	Other Tangible Plant	-	-	-	-	-	-	-
30		Total Plant in Service - Actual	4,669,687	-	-	-	-	-	4,233,102
31		Post Test-Year Plant	-	-	-	-	-	-	-
32		Total Plant in Service	\$ 4,669,687	\$ (436,585)	\$ -	\$ (4,601)	\$ -	\$ -	\$ 4,233,102
33		Less: Accumulated Depreciation	1,625,282	-	-	-	-	-	1,620,681
34		Net Plant in Service	\$ 3,044,405	\$ (436,585)	\$ -	\$ 4,601	\$ -	\$ -	\$ 2,612,420
35									
36									
37									
38									
39		LESS:							
40		Contributions in Aid of Construction (CIAC)	\$ 278,641	-	-	-	-	-	\$ 278,641
41		Less: Accumulated Amortization	10,488	-	-	-	-	-	10,488
42		Net CIAC (L25 - L26)	268,153	-	-	-	-	-	268,153
43		Advances in Aid of Construction (AIAC)	1,770,477	-	-	-	11,744	-	1,770,477
44		Customer Deposits	116,769	-	-	-	-	-	128,512
45		Deferred Income Taxes	-	-	-	-	-	-	-
46			-	-	-	-	-	-	-
47		ADD:							
48		Working Capital Allowance	68,638	-	-	-	-	(68,638)	-
49		Deferred Regulatory Assets	-	-	-	-	-	-	-
50									
51		Original Cost Rate Base	\$ 957,645	\$ (436,585)	\$ -	\$ 4,601	\$ (11,744)	\$ (68,638)	\$ 445,278

RATE BASE ADJUSTMENT NO. 1 - NOT USED AND USEFUL PLANT

LINE NO.	ACCT NO.	DESCRIPTION	(A) Plant in Service Per Company	(B) Plant Not Used and Useful	(C) Plant in Service Per Staff (Col A + Col B)
1	301	Organization Cost	\$ -	\$ -	\$ -
2	302	Franchise Cost	-	-	-
3	303	Land and Land Rights	33,498	-	33,498
4	304	Structures and Improvements	97,549	-	97,549
5	305	Collecting and Impounding Res.	-	-	-
6	306	Lake River and Other Intakes	-	-	-
7	307	Wells and Springs	377,071	(69,947)	307,124
8	308	Infiltration Galleries and Tunnels	-	-	-
9	309	Supply Mains	-	-	-
10	310	Power Generation Equipment	-	-	-
11	311	Electric Pumping Equipment	230,200	-	230,200
12	320	Water Treatment Equipment	3,553	-	3,553
13	330	Distribution Reservoirs & Standpipe	649,885	(352,253)	297,632
14	331	Transmission and Distribution Mains	2,668,587	(14,385)	2,654,202
15	333	Services	18,538	-	18,538
16	334	Meters	232,155	-	232,155
17	335	Hydrants	177,913	-	177,913
18	336	Backflow Prevention Devices	-	-	-
19	339	Other Plant and Miscellaneous Equipment	25,964	-	25,964
20	340	Office Furniture and Fixtures	45,864	-	45,864
21	341	Transportation Equipment	63,848	-	63,848
22	342	Stores Equipment	42,557	-	42,557
23	343	Tools and Work Equipment	-	-	-
24	344	Laboratory Equipment	-	-	-
25	345	Power Operated Equipment	2,083	-	2,083
26	346	Communications Equipment	-	-	-
27	347	Miscellaneous Equipment	422	-	422
28	348	Other Tangible Plant	-	-	-
29		Plant Held for Future Use	-	-	-
30		Total Plant	\$ 4,669,687	\$ (436,585)	\$ 4,233,102

Staff's Calculation

Date	Account Number	Vender	Amount
7/26/2004	307 Wells and Springs	A to A Drilling	\$ 14,400
10/29/2004	307 Wells and Springs	Dana Kepner Co.	1,275.27
10/31/2004	307 Wells and Springs	Perkins Cinders, Inc.	328.00
1/7/2005	307 Wells and Springs	Murphy Engineering Group	730.00
6/28/2005	307 Wells and Springs	Hughes Supply	178.00
7/6/2005	307 Wells and Springs	Reed Supply Co.	2,220.50
11/8/2005	307 Wells and Springs	Home Depot	19.64
11/29/2005	307 Wells and Springs	A to A Drilling	13,000.00
12/20/2005	307 Wells and Springs	White Mtn Ready Mix, LLC	166.00
2/28/2006	307 Wells and Springs	Dana Kepner Co.	4,403.49
3/9/2006	307 Wells and Springs	Dana Kepner Co.	854.11
4/27/2006	307 Wells and Springs	A to A Drilling	11,200.00
4/27/2008	307 Wells and Springs	A to A Drilling	1,247.58
6/26/2006	307 Wells and Springs	Dana Kepner Co.	976.02
7/12/2006	307 Wells and Springs	A to A Drilling	10,000.00
8/31/2006	307 Wells and Springs	Dana Kepner Co.	272.49
9/10/2008	307 Wells and Springs	Mitchell Lewis & Straver Co.	2,800.00
9/10/2008	307 Wells and Springs	Mitchell Lewis & Straver Co.	2,306.13
9/10/2008	307 Wells and Springs	Mitchell Lewis & Straver Co.	3,570.00
Total			\$ 69,947.23
1/1/2006	330 Distribution Reservoirs & Standpipe	Ellis & Associates	\$ 8,500
4/11/2006	330 Distribution Reservoirs & Standpipe	Page Steel	61,750
6/1/2006	330 Distribution Reservoirs & Standpipe	Southwest Industrial Coatings, Inc.	11,660.39
9/25/2006	330 Distribution Reservoirs & Standpipe	Page Steel	141.7
9/28/2006	330 Distribution Reservoirs & Standpipe	Page Steel	109,525
9/28/2006	330 Distribution Reservoirs & Standpipe	Page Steel	139.75
10/3/2006	330 Distribution Reservoirs & Standpipe	Sherwin-Williams	1,154.16
10/4/2006	330 Distribution Reservoirs & Standpipe	Sherwin-Williams	94.22
10/29/2006	330 Distribution Reservoirs & Standpipe	Twelve Forty One Grading Inc.	79,387
12/6/2006	330 Distribution Reservoirs & Standpipe	Page Steel	77,253.31
3/7/2007	330 Distribution Reservoirs & Standpipe	Murphy Engineering Group	1,887.00
8/8/2007	330 Distribution Reservoirs & Standpipe	Murphy Engineering Group	760
Total			\$ 352,252.53
2/28/2006	331 Transmission and Distribution Mains	Dana Kepner Co.	4,820.15
10/31/2006	331 Transmission and Distribution Mains	Dana Kepner Co.	2,071.80
10/31/2008	331 Transmission and Distribution Mains	Dana Kepner Co.	7,493.50
			\$ 14,385.45

References:

Column [A]: Company Application, Adjusted for Updated Test Year.
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - RECLASSIFICATION OF PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			Plant in Service Per Company	Reclassification of Plant	PLANT In Service Per Staff (Col A + Col B)
1	301	Organization Cost	\$ -	\$ -	\$ -
2	302	Franchise Cost	-	-	-
3	303	Land and Land Rights	33,498		33,498
4	304	Structures and Improvements	97,549		97,549
5	305	Collecting and Impounding Res.	-		-
6	306	Lake River and Other Intakes	-		-
7	307	Wells and Springs	377,071	(4,491)	372,580
8	308	Infiltration Galleries and Tunnels	-		-
9	309	Supply Mains	-		-
10	310	Power Generation Equipment	-		-
11	311	Electric Pumping Equipment	230,200	4,491	234,691
12	320	Water Treatment Equipment	3,553		3,553
13	330	Distribution Reservoirs & Standpipe	649,885		649,885
14	331	Transmission and Distribution Mains	2,668,587	(1,856)	2,666,731
15	333	Services	18,538		18,538
16	334	Meters	232,155	1,856	234,011
17	335	Hydrants	177,913		177,913
18	336	Backflow Prevention Devices	-		-
19	339	Other Plant and Miscellaneous Equipment	25,964		25,964
20	340	Office Furniture and Fixtures	45,864		45,864
21	341	Transportation Equipment	63,848		63,848
22	342	Stores Equipment	42,557		42,557
23	343	Tools and Work Equipment	-		-
24	344	Laboratory Equipment	-		-
25	345	Power Operated Equipment	2,083		2,083
26	346	Communications Equipment	-		-
27	347	Miscellaneous Equipment	422		422
28	348	Other Tangible Plant	-		-
29		Plant Held for Future Use	-		-
30		Total Plant	\$ 4,669,687	\$ -	\$ 4,669,687

Staff's Calculation

Date	Account Number	Vender	Amount
10/20/2004	307 Wells and Springs	Reed Supply Co.	\$ 2,538.62
6/26/2006	307 Wells and Springs	Dana Kepner Co.	1,952.04
Total			\$ 4,490.66
5/14/2004	331 Transmission and Distribution Mains	Canyon Pipe & Supply Co.	\$ 371.13
5/18/2004	331 Transmission and Distribution Mains	Canyon Pipe & Supply Co.	1,484.99
Total			\$ 1,856.12

References:

Column [A]: Company Application, Adjusted for Updated Test Year.

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Depreciation	\$ 1,625,282	\$ (4,601)	\$1,620,681

References:

Column [A]: Company Application, Adjusted for Updated Test Year.

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

REMOVE NEGATIVE ACCUMULATED DEPRECIATION AND RESTATE BEGINNING BALANCE ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		PLANT BALANCE LAST DECISION	ACCUMULATED DEPRECIATION LAST DECISION	STAFF ADJUSTMENTS	STAFF BEGINNING ACCUMULATED DEP. AS ADJUSTED	NET BOOK VALUE
303	Land and Land Rights	\$ 22,425	\$ -	\$ -	\$ -	\$ 22,425
304	Structures and Improvements	94,930	80,111		80,111	14,819
307	Wells and Springs	225,481	114,113		114,113	111,368
311	Electric Pumping Equipment	119,002	91,688		91,688	27,314
320	Water Treatment Equipment	-	-		-	-
330	Distribution Reservoirs & Standpipes	246,612	241,377		241,377	5,235
331	Transmission and Distribution Mains	1,057,174	386,843		386,843	670,331
333	Services	10,116	9,167		9,167	949
334	Meters	185,262	109,104		109,104	76,158
335	Hydrants	14,810	6,587		6,587	8,223
339	Other Plant & Miscellaneous Equipment	1,666	(29,984)	31,650	1,666	-
340	Office Furniture and Equipment	28,994	5,202		5,202	23,792
341	Transportation Equipment	57,148	7,044		7,044	50,104
343	Tools and Work Equipment	38,542	54,407	(15,865)	38,542	-
345	Power Operated Equipment	-	0		-	-
346	Communication Equipment	533	(601)	1,134	533	-
347	Miscellaneous Equipment	422	11		11	411
		\$ 2,103,117	\$ 1,075,069	\$ 16,919	\$ 1,091,988	\$ 1,011,129

References:

Column [A]: Company Application, Adjusted for Updated Test Year.

Column [B]: Company Application, Adjusted for Updated Test Year.

Column [C]: Testimony

Column [D]: Column [A] - Column [B]

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED AND USEFUL, AND RECLASSIFY PLANT COSTS

Plant	31-Dec-03		Depreciation Rates	2004		Staff Adjustments	2004	2004	2004	2004 Accumulated Depreciation
	31-Dec-03 Original Cost	Accumulated Depreciation adjusted		Additions	Depr. Expense					
303 Land and Land Rights	22,425	0	0.00%	0	0	0	0	22,425	0	83,272
304 Structures and Improvements	94,930	80,111	3.33%	0	0	3,161	3,161	94,930	83,272	121,645
307 Wells and Springs	225,481	114,113	3.33%	22,489	(21,081)	7,532	7,532	226,889	121,645	106,881
311 Electric Pumping Equipment	119,002	91,688	12.50%	0	5,078	15,193	15,193	124,080	106,881	0
320 Water Treatment Equipment	0	0	20.00%	0	0	0	0	0	0	246,612
330 Distribution Reservoirs & Standpipes	246,612	241,377	2.22%	0	0	5,235	5,235	246,612	246,612	410,079
331 Transmission and Distribution Mains	1,057,174	386,843	2.00%	211,087	(1,856)	23,236	23,236	1,266,405	410,079	9,504
333 Services	10,116	9,167	3.33%	0	0	337	337	10,116	9,504	125,157
334 Meters	185,262	109,104	8.33%	13,038	1,856	16,053	16,053	200,157	125,157	6,983
335 Hydrants	14,810	6,587	2.00%	9,986	0	396	396	24,796	6,983	1,967
339 Other Plant & Miscellaneous Equipment	1,666	1,666	6.67%	5,694	0	7,360	7,360	36,525	7,387	18,474
340 Office Furniture and Equipment	28,994	5,202	6.67%	7,532	0	11,430	11,430	57,148	18,474	38,542
341 Transportation Equipment	57,148	7,044	20.00%	0	0	0	0	38,542	38,542	27
343 Tools and Work Equipment	38,542	38,542	5.00%	1,082	0	27	27	1,082	27	533
345 Power Operated Equipment	0	0	5.00%	0	0	0	0	533	533	53
346 Communication Equipment	533	533	10.00%	0	0	42	42	422	422	
347 Miscellaneous Equipment	422	11	10.00%	0	0					
2004 Totals	\$2,103,117	\$1,091,988		\$270,909	(\$16,003)	\$85,127	\$85,127	\$2,358,023	\$2,358,023	\$1,177,115

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED AND USEFUL, AND RECLASSIFY PLANT COSTS

	2005 Beginning Balance	2005 Additions	2005 Deletions	2005 Staff Adjustments	2005 Depreciation Exp.	2005 Ending Balance	2005 Accumulated Depreciation	2005 Net Book Value
303 Land and Land Rights	22,425	11,073	0	0	0	33,498	0	33,498
304 Structures and Improvements	94,930	0	0	0	3,161	94,930	86,433	8,496
307 Wells and Springs	226,889	34,977	0	(16,314)	7,866	245,553	129,511	116,041
311 Electric Pumping Equipment	124,080	4,623	0	0	15,799	128,703	122,680	6,024
320 Water Treatment Equipment	0	0	0	0	0	0	0	0
330 Distribution Reservoirs & Standpipes	246,612	0	0	0	0	246,612	246,612	0
331 Transmission and Distribution Mains	1,266,405	314,524	0	0	28,473	1,580,929	438,552	1,142,377
333 Services	10,116	0	0	0	337	10,116	9,841	275
334 Meters	200,157	6,641	0	0	16,950	206,798	142,106	64,692
335 Hydrants	24,796	41,126	0	0	907	65,921	7,890	58,031
339 Other Plant & Miscellaneous Equipment	7,360	0	0	0	491	7,360	2,458	4,902
340 Office Furniture and Equipment	36,525	2,360	0	0	2,515	38,885	9,902	28,983
341 Transportation Equipment	57,148	2,800	0	0	11,710	59,948	30,183	29,765
343 Tools and Work Equipment	38,542	0	0	0	0	38,542	38,542	0
345 Power Operated Equipment	1,082	0	0	0	54	1,082	81	1,001
346 Communication Equipment	533	0	0	0	0	533	533	0
347 Miscellaneous Equipment	422	0	0	0	42	422	95	327
2005 Totals	\$2,358,023	\$418,125	\$0	(\$16,314)	\$88,305	\$2,759,834	\$1,265,420	\$1,494,414

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED AND USEFUL, AND RECLASSIFY PLANT COSTS

	2006 Beginning Balance	2006 Additions	2006 Deletions	2006 Staff Adjustments	2006 Depreciation Exp.	2006 Ending Balance	2006 Accumulated Depreciation	2006 Net Book Value
303 Land and Land Rights	33,498	0	0	0	0	33,498	0	33,498
304 Structures and Improvements	94,930	0	0	0	3,161	94,930	89,594	5,335
307 Wells and Springs	245,553	69,132	0	(30,906)	8,813	283,779	138,324	145,455
311 Electric Pumping Equipment	128,703	4,206	0	1,952	16,473	134,862	139,152	(4,291)
320 Water Treatment Equipment	0	3,196	0	0	320	3,196	320	2,876
330 Distribution Reservoirs & Standpipes	246,612	400,626	0	(349,606)	6,041	297,632	252,653	44,979
331 Transmission and Distribution Mains	1,580,929	116,325	0	(14,385)	32,638	1,682,869	471,190	1,211,679
333 Services	10,116	0	0	0	275	10,116	10,116	0
334 Meters	206,798	9,567	0	0	17,625	216,365	159,731	56,634
335 Hydrants	65,921	14,452	0	0	1,463	80,374	9,353	71,020
339 Other Plant & Miscellaneous Equipment	7,360	15,974	0	0	1,024	23,334	3,482	19,852
340 Office Furniture and Equipment	38,885	6,979	0	0	2,826	45,864	12,728	33,136
341 Transportation Equipment	59,948	7,900	0	0	12,780	67,848	42,963	24,885
343 Tools and Work Equipment	38,542	3,255	0	0	2,008	41,797	40,550	1,247
345 Power Operated Equipment	1,082	1,001	0	0	79	2,083	160	1,923
346 Communication Equipment	533	0	0	0	0	533	533	0
347 Miscellaneous Equipment	422	0	0	0	42	422	138	284
2006 Totals	\$2,759,834	\$652,612	\$0	(\$392,945)	\$105,568	\$3,019,501	\$1,370,988	\$1,648,513

	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007
	Beginning Balance	Additions	Deletions	Staff Adjustments	Depreciation Exp.	Ending Balance	Accumulated Depreciation	Book Value					
3303 Land and Land Rights	33,498	0	0	0	0	33,498	0	33,498					
3304 Structures and Improvements	94,930	0	0	0	3,161	94,930	92,756	2,174					
3307 Wells and Springs	283,779	15,999	0	0	9,716	299,778	148,041	151,737					
3311 Electric Pumping Equipment	134,862	24,176	0	0	18,369	159,038	157,521	1,516					
3320 Water Treatment Equipment	3,196	357	0	0	675	3,553	994	2,558					
3330 Distribution Reservoirs & Standpipes	297,632	2,647	0	(2,647)	6,607	297,632	259,261	38,372					
3331 Transmission and Distribution Mains	1,682,869	713,201	0	0	40,789	2,396,070	511,980	1,884,090					
3333 Services	10,116	1,491	0	0	362	11,607	10,477	1,130					
3334 Meters	216,365	9,717	0	0	18,428	226,082	178,159	47,923					
335 Hydrants	80,374	55,022	0	0	2,158	135,396	11,511	123,885					
3339 Other Plant & Miscellaneous Equipment	23,334	680	0	0	1,579	24,014	5,061	18,953					
340 Office Furniture and Equipment	45,864	0	0	0	3,059	45,864	15,788	30,077					
341 Transportation Equipment	67,848	0	0	0	13,570	67,848	56,532	11,316					
343 Tools and Work Equipment	41,797	760	0	0	2,007	42,557	42,557	(0)					
345 Power Operated Equipment	2,083	0	0	0	104	2,083	264	1,818					
346 Communication Equipment	533	0	533	0	0	0	0	0					
347 Miscellaneous Equipment	422	0	0	0	42	422	180	242					
2007 Totals	\$3,019,501	\$824,050	\$533	(\$2,647)	\$120,626	\$3,840,371	\$1,491,081	\$2,349,289					

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE
ADJUSTED TO REMOVE NOT USED AND USEFUL, AND RECLASSIFY PLANT COSTS

	2008 Beginning Balance	2008 Additions	2008 Deletions	2008 Staff Adjustments	2008 Depreciation Exp.	2008 Ending Balance	2008 Accumulated Depreciation	2008 Net Book Value
303 Land and Land Rights	33,498	0	0	0	0	33,498	0	33,498
304 Structures and Improvements	94,930	2,619	0	0	2,174	97,549	94,930	2,619
307 Wells and Springs	299,778	11,531	0	(8,676)	10,030	302,633	158,071	144,562
311 Electric Pumping Equipment	159,038	75,654	0	0	24,608	234,692	182,129	52,562
320 Water Treatment Equipment	3,553	0	0	0	711	3,553	1,705	1,848
330 Distribution Reservoirs & Standpipes	297,632	0	0	0	6,607	297,632	265,868	31,764
331 Transmission and Distribution Mains	2,396,070	256,275	0	0	50,484	2,652,345	562,464	2,089,881
333 Services	11,607	6,931	0	0	502	18,538	10,979	7,559
334 Meters	226,082	7,929	0	0	19,163	234,011	197,322	36,689
335 Hydrants	135,396	42,517	0	0	3,133	177,913	14,644	163,269
339 Other Plant & Miscellaneous Equipment	24,014	1,950	0	0	1,667	25,964	6,727	19,237
340 Office Furniture and Equipment	45,864	0	0	0	3,059	45,864	18,847	27,017
341 Transportation Equipment	67,848	0	4,000	0	11,316	63,848	63,848	0
343 Tools and Work Equipment	42,557	0	0	0	0	42,557	42,557	(0)
345 Power Operated Equipment	2,083	0	0	0	104	2,083	369	1,714
346 Communication Equipment	0	0	0	0	0	0	0	0
347 Miscellaneous Equipment	422	0	0	0	42	422	222	200
2008 Totals	\$3,840,371	\$405,406	\$4,000	(\$8,676)	\$133,600	\$4,233,102	\$1,620,681	\$2,612,419

Pineview Water Company, Inc.
Docket No. W-01676A-08-0366
Test Year Ended December 31, 2008

Schedule JMM-8

RATE BASE ADJUSTMENT NO. 4 - CUSTOMER DEPOSITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Customer Deposits	\$ 116,769	\$ 11,744	\$ 128,512

References:

Column [A]: Company Application, Adjusted for Updated Test Year.

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

Pineview Water Company, Inc.
Docket No. W-01676A-08-0366
Test Year Ended December 31, 2008

Schedule JMM-9

RATE BASE ADJUSTMENT NO. 5 - WORKING CAPITAL ALLOWANCE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Cash Working Capital	\$ 68,638	\$ (68,638)	\$ -

References:

Column [A]: Company Application, Adjusted for Updated Test Year.

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj. No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>REVENUES:</u>						
2	Metered Water Sales	\$ 667,543	\$ -		\$ 667,543	\$ 40,180	\$ 707,723
3	Water Sales-Unmetered	918	-		918	-	918
4	Other Operating Revenue	6,790	-		6,790	-	6,790
5	Intentionally Left Blank	-	-		-	-	-
6	Total Operating Revenues	\$ 675,251	\$ -		\$ 675,251	\$ 40,180	\$ 715,431
7							
8	<u>OPERATING EXPENSES:</u>						
9	Salaries and Wages	\$ 205,636	\$ -		\$ 205,636	\$ -	\$ 205,636
10	Purchased Water	-	-		-	-	-
11	Purchased Power	64,206	-		64,206	-	64,206
12	Fuel for Power Production	-	-		-	-	-
13	Chemicals	1,473	-		1,473	-	1,473
14	Repairs and Maintenance	44,381	-		44,381	-	44,381
15	Office Supplies and Expense	8,857	(201)	1	8,656	-	8,656
16	Outside Services	12,640	-		12,640	-	12,640
17	Outside Services - Other	-	-		-	-	-
18	Outside Services - Legal	-	-		-	-	-
19	Water Testing	4,968	435	2	5,403	-	5,403
20	Rents	19,332	-		19,332	-	19,332
21	Transportation Expenses	8,343	-		8,343	-	8,343
22	Insurance - General Liability	12,346	-		12,346	-	12,346
23	Insurance - Health and Life	27,229	-		27,229	-	27,229
24	Regulatory Commission Expense	-	-		-	-	-
25	Regulatory Commission Expense - Rate Case	9,979	(9,979)	3	-	-	-
26	General and Administrative	33,059	-		33,059	-	33,059
27	Bad Debt Expense	-	-		-	-	-
28	Depreciation Expense	139,461	(7,700)	4	131,761	-	131,761
29	Amortization of CIAC	-	-		-	-	-
30	Taxes Other than Income	15,522	-		15,522	-	15,522
31	Property Taxes	25,327	2,142	5	27,469	545	28,013
32	Income Taxes	45	12,424	6	12,469	13,388	25,857
33	Intentionally Left Blank	-	-		-	-	-
34	Total Operating Expenses	\$ 632,804	\$ (2,879)		\$ 629,925	\$ 13,933	\$ 643,858
35	Operating Income (Loss)	\$ 42,447	\$ 2,879		\$ 45,326	\$ 26,247	\$ 71,573

References:

Column [A]: Company Application, Adjusted for Updated Test Year.
Column [B]: Schedule JMM-12
Column [C]: Column (A) + Column (B)
Column [D]: Schedules JMM-16 and JMM-17
Column [E]: Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Food and Beverage Expense ADJ #1 Ref. Sch JMM-12	[C] Water Testing Expense ADJ #2 Ref. Sch JMM-13	[D] Rate Case Expense ADJ #3 Ref. Sch JMM-14	[E] Depreciation Expense ADJ #4 Ref. Sch JMM-15	[F] Property Tax Expense ADJ #5 Ref. Sch JMM-16	[G] Income Tax Expense ADJ #6 Ref. Sch JMM-17	[H] STAFF ADJUSTED
1	REVENUES:								
2	Metered Water Sales	\$ 667,543	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	667,543
3	Water Sales-Unmetered	918	-	-	-	-	-	-	918
4	Other Operating Revenue	6,790	-	-	-	-	-	-	6,790
5	Intentionally Left Blank	-	-	-	-	-	-	-	-
6	Total Operating Revenues	\$ 675,251	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	675,251
7									
8	OPERATING EXPENSES:								
9	Salaries and Wages	\$ 205,636	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	205,636
10	Purchased Water	-	-	-	-	-	-	-	-
11	Purchased Power	64,206	-	-	-	-	-	-	64,206
12	Fuel for Power Production	-	-	-	-	-	-	-	-
13	Chemicals	1,473	-	-	-	-	-	-	1,473
14	Repairs and Maintenance	44,381	-	-	-	-	-	-	44,381
15	Office Supplies and Expense	8,857	(201)	-	-	-	-	-	8,656
16	Outside Services	12,640	-	-	-	-	-	-	12,640
17	Outside Services - Other	-	-	-	-	-	-	-	-
18	Outside Services - Legal	-	-	-	-	-	-	-	-
19	Water Testing	4,968	-	435	-	-	-	-	5,403
20	Rents	19,332	-	-	-	-	-	-	19,332
21	Transportation Expenses	8,343	-	-	-	-	-	-	8,343
22	Insurance - General Liability	12,346	-	-	-	-	-	-	12,346
23	Insurance - Health and Life	27,229	-	-	-	-	-	-	27,229
24	Regulatory Commission Expense	-	-	-	-	-	-	-	-
25	Regulatory Commission Expense - Rate Case	9,979	-	-	(9,979)	-	-	-	-
26	General and Administrative	33,059	-	-	-	-	-	-	33,059
27	Bad Debt Expense	-	-	-	-	-	-	-	-
28	Depreciation Expense	139,461	-	-	-	(7,700)	-	-	131,761
29	Amortization of CIAC	-	-	-	-	-	-	-	-
30	Taxes Other than Income	15,522	-	-	-	-	-	-	15,522
31	Property Taxes	25,327	-	-	-	-	2,142	-	27,469
32	Income Taxes	45	-	-	-	-	-	12,424	12,469
33	Intentionally Left Blank	-	-	-	-	-	-	-	-
34	Total Operating Expenses	\$ 632,804	(201)	435	(9,979)	(7,700)	2,142	12,424	629,926
35	Operating Income (Loss)	\$ 42,447	201	(435)	9,979	7,700	(2,142)	(12,424)	45,325

Pineview Water Company, Inc.
Docket No. W-01676A-08-0366
Test Year Ended December 31, 2008

Schedule JMM-12

OPERATING ADJUSTMENT NO. 1 - OFFICE AND SUPPLIES EXPENSE

Line No.	Description	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Office Supplies and Expense	\$ 8,857	\$ (201)	\$ 8,656

References:

Column [A]: Company Application, Adjusted for Updated Test Year.

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

Pineview Water Company, Inc.
Docket No. W-01676A-08-0366
Test Year Ended December 31, 2008

Schedule JMM-13

OPERATING ADJUSTMENT NO. 2 - WATER TESTING EXPENSE

Line No.	Description	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Water Testing	\$ 4,968	\$ 435	\$ 5,403

References:

Column [A]: Company Application, Adjusted for Updated Test Year.

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

Pineview Water Company, Inc.
Docket No. W-01676A-08-0366
Test Year Ended December 31, 2008

Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Rate Case Expense	\$ 9,979	\$ (9,979)	\$ -

References:

Column [A]: Company Application, Adjusted for Updated Test Year.

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 4 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	\$ -	\$ 100	\$ (100)	0.00%	\$ -
2	302	Franchise Cost	\$ -	\$ -	\$ -	0.00%	\$ -
3	303	Land and Land Rights	\$ 33,498	\$ 1,284,595	\$ (1,251,097)	0.00%	\$ -
4	304	Structures and Improvements	\$ 97,549	\$ -	\$ 97,549	3.33%	\$ 3,248
5	305	Collecting and Impounding Res.	\$ -	\$ -	\$ -	2.50%	\$ -
6	306	Lake River and Other Intakes	\$ -	\$ -	\$ -	2.50%	\$ -
7	307	Wells and Springs	\$ 302,633	\$ -	\$ 302,633	3.33%	\$ 10,078
8	308	Infiltration Galleries and Tunnels	\$ -	\$ -	\$ -	6.67%	\$ -
9	309	Supply Mains	\$ -	\$ -	\$ -	2.00%	\$ -
10	310	Power Generation Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
11	311	Electric Pumping Equipment	\$ 234,691	\$ -	\$ 234,691	12.50%	\$ 29,336
12	320	Water Treatment Equipment	\$ 3,553	\$ -	\$ 3,553	3.33%	\$ 118
13	320	Water Treatment Plant	\$ -	\$ -	\$ -	3.33%	\$ -
14	330	Distribution Reservoirs & Standpipe	\$ 297,632	\$ -	\$ 297,632	2.22%	\$ 6,607
15	331	Transmission and Distribution Mains	\$ 2,652,345	\$ -	\$ 2,652,345	2.00%	\$ 53,047
16	333	Services	\$ 18,538	\$ -	\$ 18,538	3.33%	\$ 617
17	334	Meters	\$ 234,011	\$ -	\$ 234,011	8.33%	\$ 19,493
18	335	Hydrants	\$ 177,913	\$ -	\$ 177,913	2.00%	\$ 3,558
19	336	Backflow Prevention Devices	\$ -	\$ -	\$ -	6.67%	\$ -
20	339	Other Plant and Miscellaneous Equipment	\$ 25,964	\$ -	\$ 25,964	6.67%	\$ 1,732
21	340	Office Furniture and Fixtures	\$ 45,864	\$ -	\$ 45,864	6.67%	\$ 3,059
22	341	Transportation Equipment	\$ 63,848	\$ -	\$ 63,848	20.00%	\$ 12,770
23	342	Stores Equipment	\$ 42,557	\$ -	\$ 42,557	4.00%	\$ 1,702
24	343	Tools and Work Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
25	344	Laboratory Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
26	345	Power Operated Equipment	\$ 2,083	\$ -	\$ 2,083	5.00%	\$ 104
27	346	Communications Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
28	347	Miscellaneous Equipment	\$ 422	\$ -	\$ 422	10.00%	\$ 42
29	348	Other Tangible Plant	\$ -	\$ -	\$ -	10.00%	\$ -
30		Total Plant	\$ 4,233,102	\$ 1,284,695	\$ 2,948,407		\$ 145,513
31							
32		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	4.94%				
33		CIAC: \$	278,641				
34		Amortization of CIAC (Line 32 x Line 33): \$	13,752				
35							
36		Depreciation Expense Before Amortization of CIAC: \$	145,513				
37		Less Amortization of CIAC: \$	13,752				
38		Test Year Depreciation Expense - Staff: \$	131,761				
39		Depreciation Expense - Company: \$	139,461				
40		Staff's Total Adjustment: \$	(7,700)				

References:

Column [A]: Schedule JMM-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO. 5 - PROPERTY TAX EXPENSE

LINE NO.		[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
	Property Tax Calculation		
1	Staff Adjusted Test Year Revenues	\$ 675,251	\$ 675,251
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	1,350,502	\$ 1,350,502
4	Staff Recommended Revenue, Per Schedule JMM-W1	675,251	\$ 715,431
5	Subtotal (Line 4 + Line 5)	2,025,753	2,065,933
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	675,251	\$ 688,644
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	1,350,502	\$ 1,377,289
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	1,350,502	\$ 1,377,289
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	283,605	\$ 289,231
15	Composite Property Tax Rate	9.6855%	9.6855%
16			\$ -
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 27,469	
18	Company Proposed Property Tax	25,327	
19			
20	Staff Test Year Adjustment (Line 16-Line 17)	\$ 2,142	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 28,013
22	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 27,469
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 545
24			
25	Increase to Property Tax Expense		\$ 545
26	Increase in Revenue Requirement		40,180
27	Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		1.355970%

OPERATING INCOME ADJUSTMENT NO. 5 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	
1		
2		
3		
4	<u>Calculation of Income Tax:</u>	Test Year
5	Revenue (Schedule JMM-11)	\$ 675,251
6	Operating Expenses Excluding Income Taxes	\$ 617,456
7	Synchronized Interest (L17)	\$ -
8	Arizona Taxable Income (L1 - L2 - L3)	\$ 57,795
9	Arizona State Income Tax Rate	6.9680%
10	Arizona Income Tax (L4 x L5)	\$ 4,027
11	Federal Taxable Income (L4 - L6)	\$ 53,768
12	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500
13	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ 942
14	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -
15	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -
16	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -
17	Total Federal Income Tax	\$ 8,442
18	Combined Federal and State Income Tax (L44 + L51)	\$ 12,469
19		
26		
27		
28		
29		
	Income Tax - Per Staff	\$ 12,469
	Income Tax - Per Company	\$ 45
	Staff Adjustment	\$ 12,424

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8x3/4" Meter	\$ 17.93	\$ 17.93	\$ 18.00
3/4" Meter	27.00	27.00	27.00
1" Meter	49.00	49.00	45.00
1 1/2" Meter	92.00	92.00	90.00
2" Meter	145.00	145.00	144.00
3" Meter	285.00	285.00	288.00
4" Meter	448.25	448.25	450.00
6" Meter	896.50	896.50	900.00
8" Meter	1,793.00	1,793.00	1,440.00
10" Meter	2,689.50	2,689.50	2,070.00
Commodity Rates per 1,000 Gallons (Residential, Commercial, Industrial)			
<u>5/8 and 3/4 Inch Meter</u>			
0 gallons to 3,000 gallons	\$ 3.10	\$ 3.10	\$ 2.75
3,001 gallons to 20,000 gallons	3.66	3.66	N/A
Over 20,000 gallons	4.20	4.20	N/A
3,001 gallons to 10,000 gallons	N/A	N/A	4.00
Over 10,000 gallons	N/A	N/A	4.90
<u>1 Inch Meter</u>			
0 gallons to 30,000 gallons	3.10	3.10	N/A
30,001 gallons to 75,000 gallons	3.66	3.66	N/A
Over 75,000 gallons	4.20	4.20	N/A
0 gallons to 24,000 gallons	N/A	N/A	4.00
Over 24,000 gallons	N/A	N/A	4.90
<u>1.5 Inch Meter</u>			
0 gallons to 50,000 gallons	3.10	3.10	N/A
50,001 gallons to 100,000 gallons	3.66	3.66	N/A
Over 100,000 gallons	4.20	4.20	N/A
0 gallons to 65,000 gallons	N/A	N/A	4.00
Over 65,000 gallons	N/A	N/A	4.90
<u>2 Inch Meter</u>			
0 gallons to 120,000 gallons	3.10	3.10	N/A
120,001 gallons to 250,000 gallons	3.66	3.66	N/A
Over 250,000 gallons	4.20	4.20	N/A
0 gallons to 113,000 gallons	N/A	N/A	4.00
Over 113,000 gallons	N/A	N/A	4.90
<u>3 Inch Meter</u>			
0 gallons to 150,000 gallons	3.10	3.10	N/A
150,001 gallons to 250,000 gallons	3.66	3.66	N/A
Over 250,000 gallons	4.20	4.20	N/A
0 gallons to 240,000 gallons	N/A	N/A	4.00
Over 240,000 gallons	N/A	N/A	4.90
<u>4 Inch Meter</u>			
0 gallons to 150,000 gallons	3.10	3.10	N/A
150,001 gallons to 250,000 gallons	3.66	3.66	N/A
Over 250,000 gallons	4.20	4.20	N/A
0 gallons to 385,000 gallons	N/A	N/A	4.00
Over 385,000 gallons	N/A	N/A	4.90
<u>6 Inch Meter</u>			
0 gallons to 150,000 gallons	3.10	3.10	N/A
150,001 gallons to 250,000 gallons	3.66	3.66	N/A
Over 250,000 gallons	4.20	4.20	N/A
0 gallons to 795,000 gallons	N/A	N/A	4.00
Over 795,000 gallons	N/A	N/A	4.90
<u>8 Inch Meter</u>			
0 gallons to 150,000 gallons	3.10	3.10	N/A
150,001 gallons to 250,000 gallons	3.66	3.66	N/A
Over 250,000 gallons	4.20	4.20	N/A
0 gallons to 1,285,000 gallons	N/A	N/A	4.00
Over 1,285,000 gallons	N/A	N/A	4.90

RATE DESIGN (CONTINUED)

	Present Rates		Staff Recommended Rates		
<u>10 Inch Meter</u>					
0 gallons to 150,000 gallons	\$ 3.10	\$ 3.10			N/A
150,001 gallons to 250,000 gallons	3.66	3.66			N/A
Over 250,000 gallons	4.20	4.20			N/A
0 gallons to 1,850,000 gallons	N/A	N/A	\$	4.00	
Over 1,850,000 gallons	N/A	N/A		4.90	
<u>Construction Water - All Usage per 1,000 Gallons</u>	4.75	4.75		4.90	
			Staff Service Line Charge	Staff Meter Installation Charge	Total Staff Charge
<u>Service Line and Meter Installation Charges</u>					
5/8" x 3/4" Meter	\$ 475.00	\$ 475.00	\$ 445.00	\$ 155.00	\$ 600.00
3/4" Meter	550.00	550.00	445.00	255.00	700.00
1" Meter	650.00	650.00	495.00	315.00	810.00
1 1/4" Meter	900.00	900.00	525.00	550.00	1,075.00
2" Turbine Meter	1,550.00	1,550.00	830.00	1,045.00	1,875.00
2" Compound Meter	2,300.00	2,300.00	830.00	1,890.00	2,720.00
3" Turbine Meter	2,200.00	2,200.00	1,095.00	1,620.00	2,715.00
3" Compound Meter	3,100.00	3,100.00	1,210.00	2,500.00	3,710.00
4" Turbine Meter	3,600.00	3,600.00	1,560.00	2,600.00	4,160.00
4" Compound Meter	4,400.00	4,400.00	1,715.00	3,600.00	5,315.00
6" Turbine Meter	6,200.00	6,200.00	2,235.00	5,000.00	7,235.00
6" Compound Meter	7,900.00	7,900.00	2,350.00	6,900.00	9,250.00
8" Turbine Meter	7,543.00	7,543.00	Cost	Cost	Cost
8" Compound Meter	7,980.00	7,980.00	Cost	Cost	Cost
10" Turbine Meter	9,629.00	9,629.00	Cost	Cost	Cost
10" Compound Meter	11,278.00	11,278.00	Cost	Cost	Cost
<u>Service Charges</u>					
Establishment - Regular Hours	\$ 20.00	\$ 20.00			\$ 20.00
Establishment (After Hours)	35.00	35.00			35.00
Re-Establishment Fee (Within 12 Months)	*	*			*
Re-Connection of Service - Regular Hours	15.00	15.00			15.00
Re-Connection of Service - After Hours	30.00	30.00			30.00
Water Meter Test - If Correct	20.00	20.00			20.00
Water Meter Relocation at Customer Request	Cost (1)	Cost (1)			Cost (1)
Meter Re-read (if Correct)	**	15.00			15.00
NSF Check Charge	25.00	25.00			25.00
Late Charge	1.50%	1.50%			1.50%
Deferred Payment Finance Charge	1.50%	1.50%			1.50%
Service Calls - Regular Hours	No Charge	No Charge			No Charge
Service Calls - After Hours	\$ 25.00	\$ 25.00			\$ 25.00
Deposits Requirements	***	***			***
Deposit Interest	6%	6%			6%

* Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

** Per Commission rule A.A.C. R14-2-408(C).

*** Per Commission rule A.A.C. R14-2-403(B).

Note:

(1) Cost Includes Materials, Labor and Overheads

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	3,944	\$ 30.69	\$ 30.69	\$ -	0.00%
Median Usage	2,139	24.56	24.56	\$ -	0.00%
Staff Recommended					
Average Usage	3,944	\$ 30.69	\$ 30.03	\$ (0.66)	-2.15%
Median Usage	2,139	24.56	23.88	\$ (0.68)	-2.76%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 17.93	\$ 17.93	0.00%	\$ 18.00	0.39%
1,000	21.03	21.03	0.00%	20.75	-1.33%
2,000	24.13	24.13	0.00%	23.50	-2.61%
3,000	27.23	27.23	0.00%	26.25	-3.60%
4,000	30.89	30.89	0.00%	30.25	-2.07%
5,000	34.55	34.55	0.00%	34.25	-0.87%
6,000	38.21	38.21	0.00%	38.25	0.10%
7,000	41.87	41.87	0.00%	42.25	0.91%
8,000	45.53	45.53	0.00%	46.25	1.58%
9,000	49.19	49.19	0.00%	50.25	2.15%
10,000	52.85	52.85	0.00%	54.25	2.65%
11,000	56.51	56.51	0.00%	59.15	4.67%
12,000	60.17	60.17	0.00%	64.05	6.45%
13,000	63.83	63.83	0.00%	68.95	8.02%
14,000	67.49	67.49	0.00%	73.85	9.42%
15,000	71.15	71.15	0.00%	78.75	10.68%
16,000	74.81	74.81	0.00%	83.65	11.82%
17,000	78.47	78.47	0.00%	88.55	12.85%
18,000	82.13	82.13	0.00%	93.45	13.78%
19,000	85.79	85.79	0.00%	98.35	14.64%
20,000	89.45	89.45	0.00%	103.25	15.43%
25,000	110.45	110.45	0.00%	127.75	15.66%
30,000	131.45	131.45	0.00%	152.25	15.82%
35,000	152.45	152.45	0.00%	176.75	15.94%
40,000	173.45	173.45	0.00%	201.25	16.03%
45,000	194.45	194.45	0.00%	225.75	16.10%
50,000	215.45	215.45	0.00%	250.25	16.15%
75,000	320.45	320.45	0.00%	372.75	16.32%
100,000	425.45	425.45	0.00%	495.25	16.41%

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)
PINEVIEW WATER COMPANY FOR AN)
APPROVAL INCREASE IN ITS WATER RATES)

DOCKET NO. W-01676A-08-0366

DIRECT

TESTIMONY

OF

DOROTHY HAINS, P.E.

UTILITIES ENGINEER

ARIZONA CORPORATION COMMISSION

UTILITIES DIVISION

DECEMBER 03, 2009

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INTRODUCTION

Q. Please state your name and business address.

A. My name is Dorothy Hains. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. By whom and in what position are you employed?

A. I am employed by the Arizona Corporation Commission ("Commission" or "ACC") as a Utilities Engineer - Water/Wastewater in the Utilities Division.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since January 1998.

Q. What are your responsibilities as a Utilities Engineer - Water/Wastewater?

A. My main responsibilities are to inspect, investigate and evaluate water and wastewater systems. This includes obtaining data, preparing reconstruction cost new and/or original cost studies and investigative reports, interpreting rules and regulations, and to suggest corrective action and provide technical recommendations on water and wastewater system deficiencies. I also provide written and oral testimony in rate cases and other cases before the Commission.

Q. How many companies have you analyzed for the Utilities Division?

A. I have analyzed more than 90 companies covering these various responsibilities for Utilities Division Staff ("Staff").

Q. Have you previously testified before this Commission?

A. Yes, I have testified on numerous occasions before this Commission.

1 **Q. What is your educational background?**

2 A. I graduated from the University of Alabama in Birmingham in 1987 with a Bachelor of
3 Science degree in Civil Engineering.

4
5 **Q. Briefly describe your pertinent work experience.**

6 A. Before my employment with the Commission, I was an Environmental Engineer for the
7 Arizona Department of Environmental Quality ("ADEQ") for ten years. Prior to that time,
8 I was an Engineering Technician with C. F. Hains, Hydrology in Northport, Alabama for
9 approximately five years.

10
11 **Q. Please state your professional membership, registrations, and licenses.**

12 A. I have been a registered Civil Engineer in Arizona since 1990. I am a member of the
13 American Society of Civil Engineering ("ASCE"), American Water Works Association
14 ("AWWA") and Arizona Water Association ("AWA").

15
16 **PURPOSE OF TESTIMONY**

17 **Q. What was your assignment in this rate proceeding?**

18 A. My assignment was to provide Staff's engineering evaluation of the subject Pineview
19 Water Company ("Company") rate proceeding.

20
21 **Q. What is the purpose of your testimony in this proceeding?**

22 A. To present the findings of Staff's engineering evaluation of operations in the Company's
23 system. The findings are contained in the Engineering Report that I have prepared for this
24 proceeding. The report is included as Exhibits DMH-1 in this pre-filed testimony.

25

ENGINEERING REPORTS

Q. Would you briefly describe what was involved in preparing your Engineering Reports for this rate proceeding?

A. After reviewing the application, I physically inspected the system to evaluate its operation and to determine if any plant items were not used and useful. I contacted ADEQ to determine if the water system was in compliance with the Safe Drinking Water Act water quality requirements. After I obtained information from the Company regarding plant improvements, chemical testing expense and data of water usage, I analyzed that information. Based on the data, I prepared the attached Engineering Reports. I also contacted Arizona Department of Water Resources ("ADWR") to determine if the water system was in compliance with the ADWR's requirements governing water providers.

Q. Please describe the information contained in your Engineering Report.

A. The Reports are divided into three general sections: 1) Executive Summary; 2) Engineering Report Discussion, and 3) Engineering Report Exhibit. The Discussions section for Pineview Water Company can be further divided into ten subsections: A) Introduction and Location of Company; B) Description of the Water System; C) ADEQ ; D) ACC Compliance; E) ADWR compliance; F) Water Testing Expenses, G) Water Usage, H) Growth; I) Depreciation Rates; J) Other Issues. These subsections provide information about the water system serving the Company.

RECOMMENDATIONS AND CONCLUSIONS

Q. What are Staff's recommendations and conclusions regarding the Company's operations?

A. Staff's recommendations and conclusions are as follows:

Recommendations

- I. Staff recommends the depreciation rates for the Company presented in Figure 6 by National Association of Regulatory Commissioners' ("NARUC") account.
- II. Staff agrees with the Company that the charges for meter and service line installation be set at zero for all meter sizes.
- III. Lost water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, fire fighting, and flushing. Lost water for the Company was calculated to be 18.6 percent which exceeds acceptable limits. Staff recommends that the Company reduce its water loss to below 10 percent by December 31, 2010, or before it files its next rate increase application and/or Certificate of Convenience and Necessity ("CC&N") application, whichever comes first. Staff further recommends that the Company begin water loss monitoring and take action to reduce water loss to less than 10 percent. Staff further recommends that the Company evaluate its water system and prepare a report for corrective measures demonstrating how the Company will reduce water losses to less than 10 percent. If the Company finds that reduction of water losses to less than 10 percent is not cost-effective, the Company shall submit a detailed cost analysis and explanation demonstrating why the water loss reduction to less than 10 percent is not cost effective. In any event water loss shall not exceed 15 percent. The water loss reduction report or the detailed cost analysis, whichever is submitted, shall be docketed as a compliance item by January 31, 2011.

1 IV. Staff considers the reported water testing expenses and the estimated water testing
2 costs of \$5,655 for the Company reasonable.

3
4 V. Staff recommends that a total of \$69,947.23 for Well No. 4B should be removed
5 from this rate base.

6
7 VI. Staff recommends that \$366,637.98 for the 2 MG tank be removed from rate
8 base.

9
10 VII. Staff recommends \$1,856.12 (in 2004) be reclassified from Well Account to
11 Pumping Equipment Account

12
13 VIII. Staff recommends \$1,856.12 (in 2004) be reclassified from Transmission &
14 Mains Account to Meter Account.

15
16 IX. Staff recommends \$1,952.04 (in 2006) be reclassified from Well Account to
17 Pumping Equipment Account.

18
19 **Conclusions:**

20 I. ADEQ has determined that the Company is currently delivering water that meets
21 the water quality standards required by Arizona Administrative Code, Title 18,
22 Chapter 4.

23
24 II. ADWR has determined that the Company is not within any ADWR Active
25 Management Area and is in compliance with the ADWR requirements governing
26 water providers.

1 III. The Company has an approved cross connection and backflow tariff.

2

3 IV. The Company has adequate storage and well production to serve its existing
4 customers and reasonable growth.

5

6 V. The Company has an approved curtailment tariff.

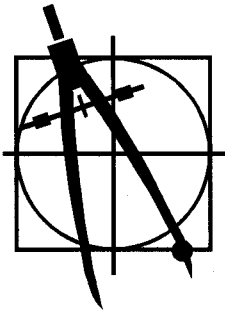
7

8 VI. A check with the Utilities Division Compliance Section showed the Company
9 has no outstanding compliance issues.

10

11 **Q. Does this conclude your Direct Testimony?**

12 A. Yes, it does.



**Engineering Report
For Pineview Water Company, Inc.
Docket No. W-01676A-08-0366
(Rate Application)**

By Dorothy Hains

September 4, 2009

EXECUTIVE SUMMARY

Recommendations:

- I. Staff recommends the depreciation rates for Pineview Company ("Pineview") presented in Figure 6 by National Association of Regulatory Commissioners' ("NARUC") account. (See §I of report for discussion and details.)
- II. Staff agrees with the Company that the charges for meter and service line installation be set at zero for all meter sizes. (See §J of report for discussion and details.)
- III. Lost water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, fire fighting, and flushing. Lost water for Pineview was calculated to be 18.6 percent which exceeds acceptable limits. Staff recommends that the Company reduce its water loss to below 10 percent by December 31, 2010, or before it files its next rate increase application and/or Certificate of Convenience and Necessity ("CC&N") Extension application, whichever comes first. Staff further recommends that the Company begin water loss monitoring and take action to reduce water loss to less than 10 percent. Staff further recommends that the Company evaluate its water system and prepare a report for corrective measures demonstrating how the Company will reduce water losses to less than 10 percent. If the Company finds that reduction of water losses to less than 10 percent is not cost-effective, the Company shall submit a detailed cost analysis and explanation demonstrating why the water loss reduction to less than 10 percent is not cost effective. In any event water loss shall not exceed 15 percent. The water loss reduction report or the detailed cost analysis, whichever is submitted, shall be docketed as a compliance item by January 31, 2011. (See §G of report for discussion and details.)
- IV. Staff considers the reported water testing expenses and the estimated water testing costs of \$5,655 for Pineview reasonable. (See §F of report for discussion and details.)

- V. Staff recommends that a total of \$69,947.23 for Well No. 4B should be removed from this rate base. (See §J of report for discussion and details.)
- VI. Staff recommends that \$366,637.98 for the 2 MG tank be removed from rate base. (See §J of report for discussion and details.)
- VII. Staff recommends \$2,538.62 (in 2004) be reclassified from Well Account to Pumping Equipment Account. (See §J of report for discussion and details.)
- VIII. Staff recommends \$1,856.12 (in 2004) be reclassified from Transmission & Mains Account to Meter Account. (See §J of report for discussion and details.)
- IX. Staff recommends \$1,952.04 (in 2006) be reclassified from Well Account to Pumping Equipment Account. (See §J of report for discussion and details.)

Conclusions:

- I. Arizona Department of Environmental Quality ("ADEQ") has determined that Pineview is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. (See §C for a discussion and details.)
- II. Arizona Department of Water Resource ("ADWR") has determined that Pineview is not within any ADWR Active Management Area and is in compliance with the ADWR requirements governing water providers. (See §E of report for discussion and details.)
- III. Pineview has an approved cross connection and backflow tariff. (See §J of report for discussion and details.)
- IV. Pineview has adequate storage and well production to serve its existing customers and reasonable growth. (See §B of report for discussion and details.)
- V. Pineview has an approved curtailment tariff. (See §J of report for discussion and details.)
- VI. A check with the Utilities Division Compliance Section showed Pineview has no outstanding compliance issues. (See §D of report for discussion and details.)

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A. INTRODUCTION AND LOCATION OF COMPANY

On July 18, 2008, Pineview Water Company, Inc. ("Pineview" or "Company") filed an application with the Arizona Corporation Commission ("Commission" or "ACC") to increase its rates. On April 23, 2009, Pineview's rate application was found sufficient. This report presents Commission Staff's engineering analysis, conclusions and recommendations in this matter.

Pineview serves water to approximately 1,130 customers and is located between the City of Show Low and the City of Lakeside in Navajo County. Figure 1 describes the Certificate of Convenience and Necessity ("CC&N") area of Pineview, and Figure 2 describes the location of Pineview.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on May 12, 2009, by Dorothy Hains, Utilities Engineer, accompanied by Company representative, Ronald McDonald (the Company's General Manager).

System Analysis

Pineview consists of five drinking water wells that are capable of producing a total flow of 658 gallons per minute ("GPM") and 570,000 gallons of storage capacity. The water system has adequate storage and well production to serve its existing customers and reasonable growth. The Company has installed interconnections to the Arizona Water Company Lakeside System and the City of Show Low System for use in an emergency. Figures 3A and 3B provide a process schematic showing both the active and inactive components of the water system.

Active Drinking Water Wells

Well #	ADWR No.	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)
3A	55-608846	1977	8	800	3	40	115
3B	55-565467	1997	10	820	3	40	130
4A	55-521710	1988	8	750	4	40	113
4D	55-208625	2007	12	720	4	40	150
4C	55-208626	2008	12	720	4	40	150

In-active Wells

Well #	ADWR No.	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)	Year Abandoned
2	55-608847	1962	6	660	3	30	115	2007
4B	N/A	2004	N/A	N/A	N/A	N/A	N/A	2004

Active Storage, Pumping

Location	Structure or equipment	Capacity
Well 4B Site	Storage Tank	100,000gal (only 70,000 gal is useful.)
Well 4A Site	Booster Pumps	Two 15-HP and One 40-HP (using for fire flow only)
	Storage Tank	One 250,000 gal
	Pressure Tank	One 5,000 gal
Well 3A & 3B Site (Maintenance Yard)	Booster Pumps	Two 15-HP (Pump Station #1) Two 40-HP # One 15-HP (Pump Station #2)
	Pressure Tank	Two 5,000 gal
	Storage Tank	One 250,000 gal

In-active Storage, Pumping

Location	Structure or equipment	Capacity
Star Light Ridge Subdivision	Storage Tank	One 2,000,000 gal
Well #2 Site	Storage Tank	40,000 gal

Distribution Mains

Diameter (inches)	Material	Length (feet)
1	Poly Pipe	200
2	Poly Pipe	641
2	polyvinyl chloride ("PVC")	6,560
2	steel	150
3	Asbestos Cement Pipe ("ACP")	760
4	PVC	18,630
4	ACP	23,700
6	PVC	91,038
6	ACP	3,750
8	PVC	25,424
12	PVC	13,777

Meters

Size (inches)	Quantity
$\frac{5}{8} \times \frac{3}{4}$	1,009
$\frac{3}{4}$	96
1	34
$1\frac{1}{2}$	7
2	26
3 (Turbo)	0
3 (Comp)	3
4 (Turbo)	0
4 (Comp)	0
6 (Turbo)	0
6 (Comp)	0

C. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE

ADEQ has determined that Pineview is currently in full compliance with its requirements.¹ ADEQ further states that Pineview is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

D. ACC COMPLIANCE

A check of the Utilities Division Compliance database showed there were no delinquent compliance items for the Company.

E. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

Pineview is not located in any Active Management Area, as designated by ADWR. ADWR has determined that the Company is currently in compliance with departmental requirements governing water providers and/or community water systems.²

F. WATER TESTING EXPENSES

Pineview is subject to mandatory participation in the ADEQ Monitoring Assistance Program (“MAP”). Staff calculated the testing costs based on the following assumptions:

¹ ADEQ compliance status report dated September 30, 2008.

² ADWR compliance status report dated January 26, 2009.

1. MAP will do baseline testing on everything except copper, lead, bacteria and disinfection by-products.
2. ADEQ testing is performed in 3-year compliance cycles. Therefore, monitoring costs are estimated for a 3-year compliance period and then presented as a pro forma expense on an annualized basis.
3. All monitoring expenses are based on Staff's best knowledge of lab costs and methodology and two point-of-entry.
4. The estimated water testing expenses represent a minimum cost based on no "hits" other than lead and copper, and assume compositing of well samples. If any constituents were found, then the testing costs would dramatically increase.

Table 1 shows the estimated annual monitoring expense, assuming participation in the MAP program. Water testing expenses should be adjusted to the annual expense amount of \$5,655 (rounded) as shown in Table 1.

Table 1 Water Testing Cost (Pineview)

Monitoring – 5 wells & 2 point of entries (Tests per 3 years, unless noted.)	Cost per test	No. of tests per three year period	Total cost per three year period	Annual Cost
Bacteriological – monthly	\$20	180	\$3,600	\$1,200
Inorganics – Priority Pollutants	\$300	MAP	MAP	MAP
Radiochemical – (1/ 4 yr)	\$60	MAP	MAP	MAP
Phase II and V:				
IOC's, SOC's, VOC's	\$2,805	MAP	MAP	MAP
Nitrites	\$20	MAP	MAP	MAP
Nitrates – annual	\$40	6	MAP	MAP
Asbestos – per 9 years	\$0	2 1/3	MAP	MAP
Lead & Copper – annual	\$13	60	\$780	\$260
TTHM/HHAs – per 3 years	\$310	6	\$1,860	\$620
Maximum chlorine residual levels	\$15	72	\$1,080	\$360
MAP fees (annual)				\$3,215.22
Total				\$5,655.22

G. WATER USAGE

Figure 4 is a graph that shows water consumption data in gallons per day ("GPD") per customer for the system for the test year period of January 2008 through December 2008.

1. Water Sold

Based on information provided by the Company, water use for the year 2008 is presented in Figure 4. The high monthly water use was 385 gallons per day ("GPD") per connection in July, and the low monthly water use was 144 GPD per connection in March. The average annual use was 233 GPD per connection.

2. Lost Water

Lost water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, fire fighting, and flushing. Lost water for Pineview was calculated to be 18.6 percent which exceeds acceptable limits.

Staff recommends that the Company reduce its water loss to below 10 percent by December 31, 2010, or before it files its next rate increase application and/or Certificate of Convenience and Necessity ("CC&N") application, whichever comes first. Staff further recommends that the Company begin water loss monitoring and take action to reduce water loss to less than 10 percent. Staff further recommends that the Company evaluate its water system and prepare a report for corrective measures demonstrating how the Company will reduce water losses to less than 10 percent. If the Company finds that reduction of water losses to less than 10 percent is not cost-effective, the Company shall submit a detailed cost analysis and explanation demonstrating why the water loss reduction to less than 10 percent is not cost effective. In any event water loss shall not exceed 15 percent. The water loss reduction report or the detailed cost analysis, whichever is submitted, shall be docketed as a compliance item by January 31, 2011.

H. GROWTH

Figure 5 shows customer growth based on the service connection data contained in the Company's annual reports. The number of customers increased from 863 at the end of 1999 to 1,133 by the end of 2008, with an average growth rate of 31 customers per year from 1999 to 2007. Based on the linear regression analysis, Staff estimates that the Company could have over 1,270 customers by the end of 2013. The following tables summarize Staff and the Company's projected growth.

Table 2 Actual and Projected Growth

Year	Nos. of Customers	
1999	863	Reported
2000	867	Reported
2001	889	Reported
2002	899	Reported
2003	937	Reported
2004	961	Reported
2005	1,019	Reported
2006	1,081	Reported
2007	1,118	Reported
2008	1,133	Reported
2009	1,151	Estimated
2010	1,182	Estimated
2011	1,213	Estimated
2012	1,244	Estimated
2013	1,275	Estimated

I. DEPRECIATION RATES

Decision No. 67989 approved the depreciation rates used by Pineview in this rate proceeding except that the Company reorganized the authorized rates utilizing the National Association of Regulatory Commissioners' ("NARUC") latest plant account matrix as presented in Figure 6.

Staff recommends the depreciation rates presented in Figure 6 by NARUC account be used.

J. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company requested that meter and service line installation charges for all size meters be set at zero. Staff agrees with the Company. Staff therefore recommends these charges be set at zero for all meter sizes.

2. Curtailment Tariff

The Company has an approved curtailment tariff on file with the Commission.

3. Cross Connection & Backflow Tariff

The Company has an approved Cross Connection & Backflow Tariff.

4. Field Inspection Findings

A. Well No. 4B

The Company drilled Well No. 4B in 2004. However, the well column collapsed during the drilling and the Company capped Well No. 4B. Therefore, Well No. 4B is not used and useful. The Company paid \$69,947.23³ for the Well No. 4B installation from 2004 to 2008. Staff recommends that \$69,947.23 (NARUC Account 307) be removed from rate base.

B. Two Million Gallon Storage Tank ("2 MG Tank")

During the field inspection, the 2 MG Tank was not in service, therefore, the 2 MG Tank is not used and useful. The Company indicated that the 2 MG tank would be in service in late 2009. The Company paid a total of \$366,637.98 that included \$352,252.53⁴ (NARUC Account 330) and \$14,385.45⁵ (NARUC Account 331) for the 2 MG Tank project from 2006 to 2008. The Company recorded these costs in the Storage Tank Account (NARUC Account 330) and the Transmission Account (NARUC Account 331). Staff recommends that \$366,637.98 for the 2 MG tank be removed from rate base.

5. Reclassification

A. 2004

The Company paid \$2,538.62 for pumping equipment and recorded it in the Well Account (NARUC Account 307). The Company agrees with Staff that this should be reclassified to the Pumping Equipment Account (NARUC Account 311). Therefore, Staff recommends reclassification of \$2,538.62 from the Well Account to the Pumping Equipment Account.

The Company also paid \$1,856.12⁶ for meters and recorded it in Transmission & Mains Account (NARUC Account 331). The Company agrees with Staff that this should be reclassified to Meters & Meter Installation Account (NARUC Account 334). Therefore, Staff

³ The Company paid \$16,003.27 (in 2004), \$16,314.14 (in 2005), \$16,457.60 (in 2006) and \$21,172.22 (2008) for Well No. 4B.

⁴ The Company paid \$349,605.53 (in 2006) and \$2,647 (in 2007) for the two million gallon storage tank.

⁵ The Company paid \$6,891.95 (in 2006) and \$7,493.5 (in 2008) for mains, transmissions related to two million gallon storage tank.

⁶ Pineview paid Canyon Pipe & Supply Inc \$371.13 and \$1,484.99 for meters.

recommends reclassification of \$1,856.12 from the Transmission & Mains Account to the Meter Account.

B. 2006

The Company paid \$1,952.04⁷ for pumping equipment and recorded it in the Well Account (NARUC Account 307). The Company agrees with Staff that this should be reclassified to the Pumping Equipment Account (NARUC Account 311). Therefore, Staff recommends reclassification of \$1,952.04 from the Well Account to the Pumping Equipment Account.

⁷ Pineview paid \$2,928.06 to Dana Kepner for pumps in Well #4B, Well #4C and Well #4D. Staff estimated $\frac{2}{3}$ expenses were for Well #4C and Well #4D.

FIGURE 1

PINEVIEW WATER DIVISION CERTIFICATED AREA

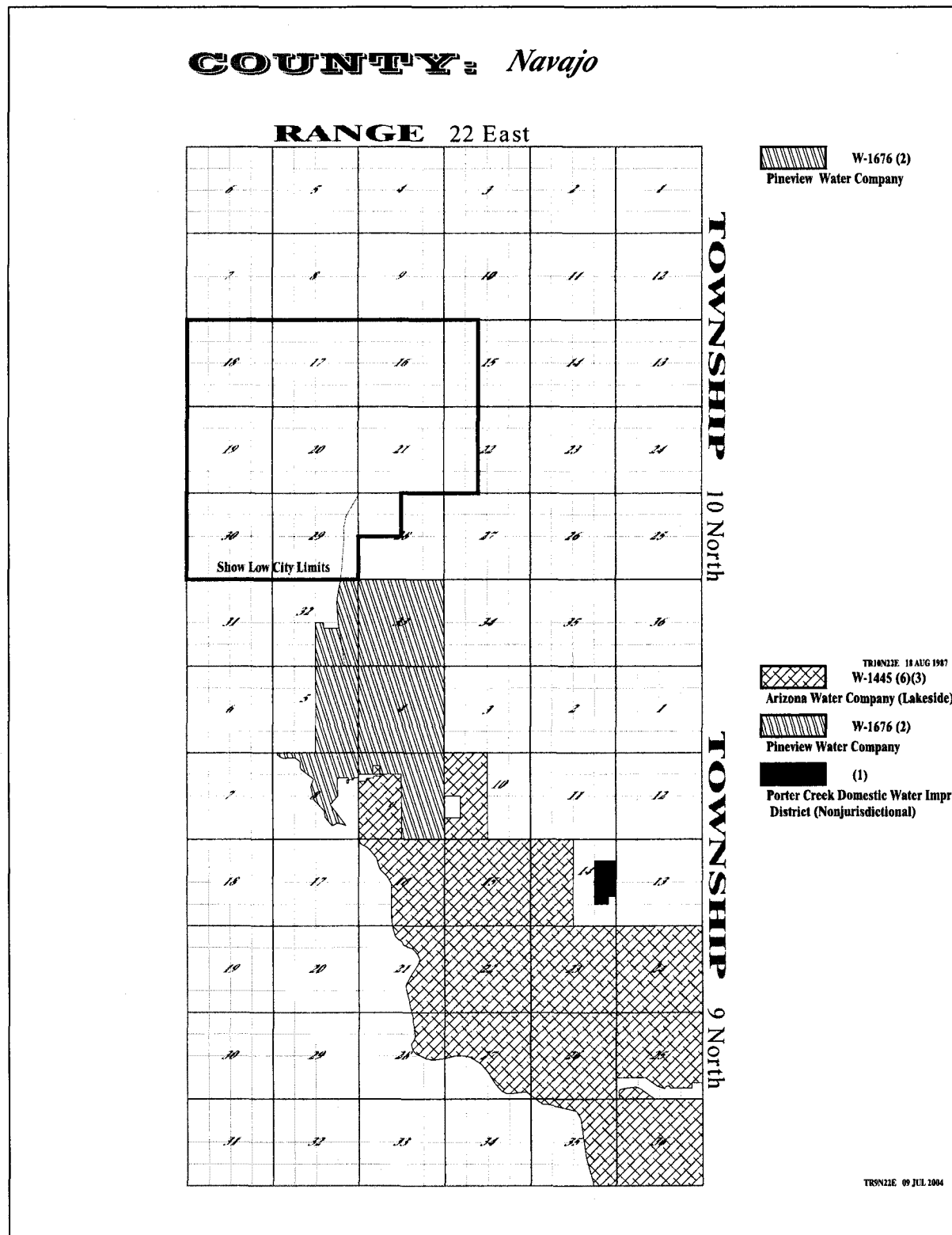
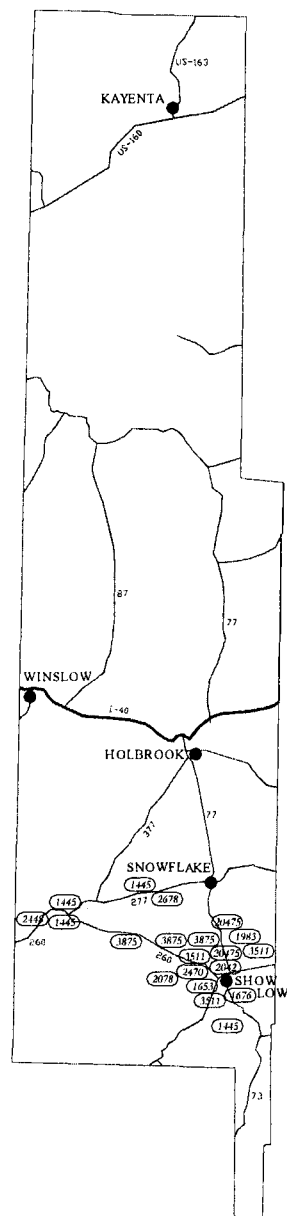


FIGURE 2
LOCATION OF PINEVIEW WATER DIVISION

NAVAJO COUNTY



- (1445) ARIZONA WATER COMPANY
- (2042) FOOLS HOLLOW WATER COMPANY
- (2448) HIGH COUNTRY PINES WATER COMPANY
- (3875) MOUNTAIN GLEN WATER SERVICE, INC.
- (3511) NAVAJO WATER COMPANY, INC.
- (1653) PARK VALLEY WATER COMPANY
- (2678) PETERSEN, A. WATER COMPANY
- (1676) PINEVIEW WATER COMPANY
- (2078) SITGREAVES WATER COMPANY
- (1983) VOYAGER AT WHITE MOUNTAIN LAKES WATER COMPANY, INC.
- (20475) WATCO, INC.
- (2470) WHITE MOUNTAIN WATER COMPANY

FIGURE 3A

PINEVIEW WATER DIVISION SYSTEMATIC DIAGRAM

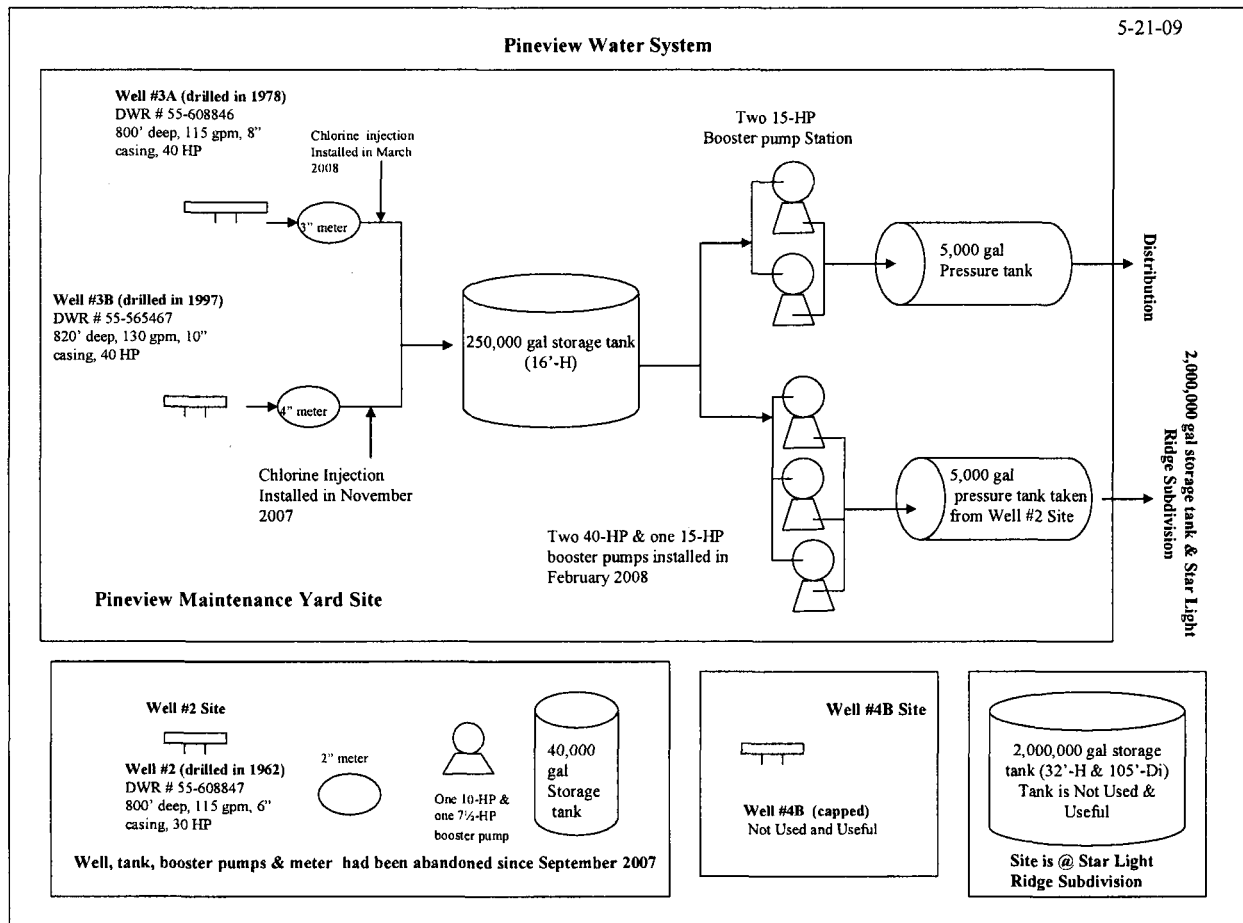


FIGURE 3B

PINEVIEW WATER DIVISION SYSTEMATIC DIAGRAM

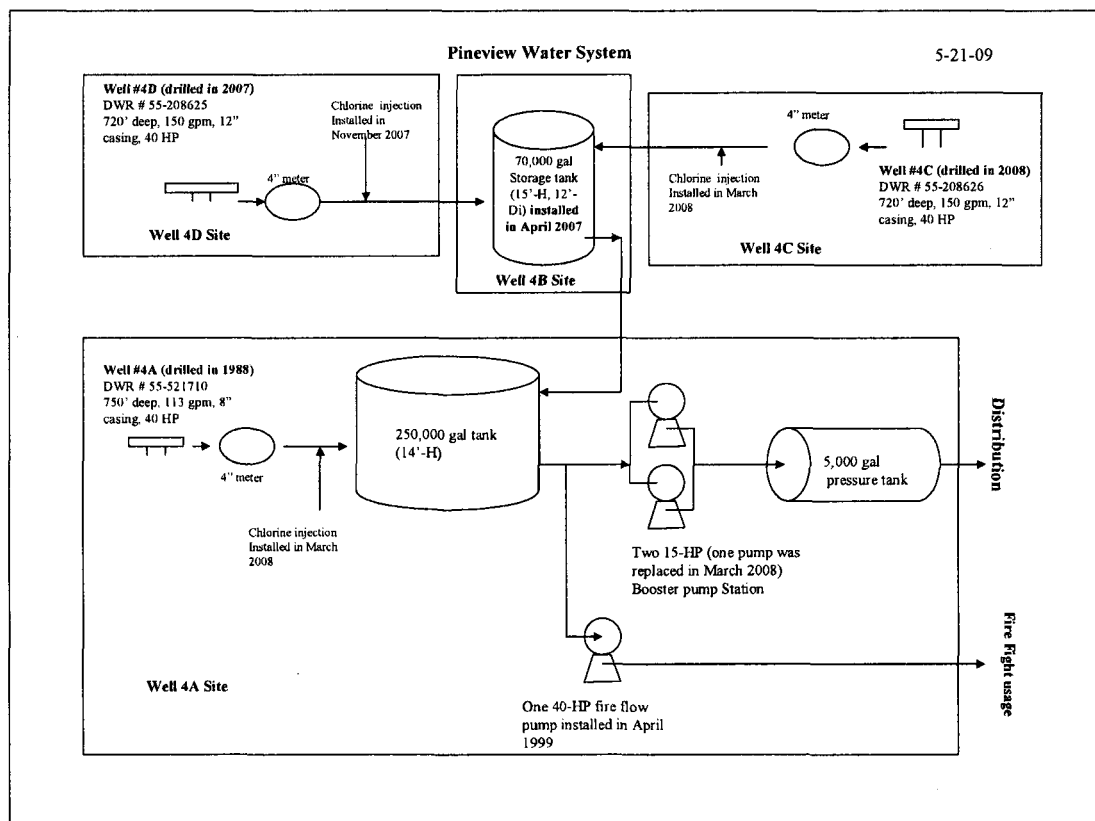


FIGURE 4

PINEVIEW WATER DIVISION WATER USAGE

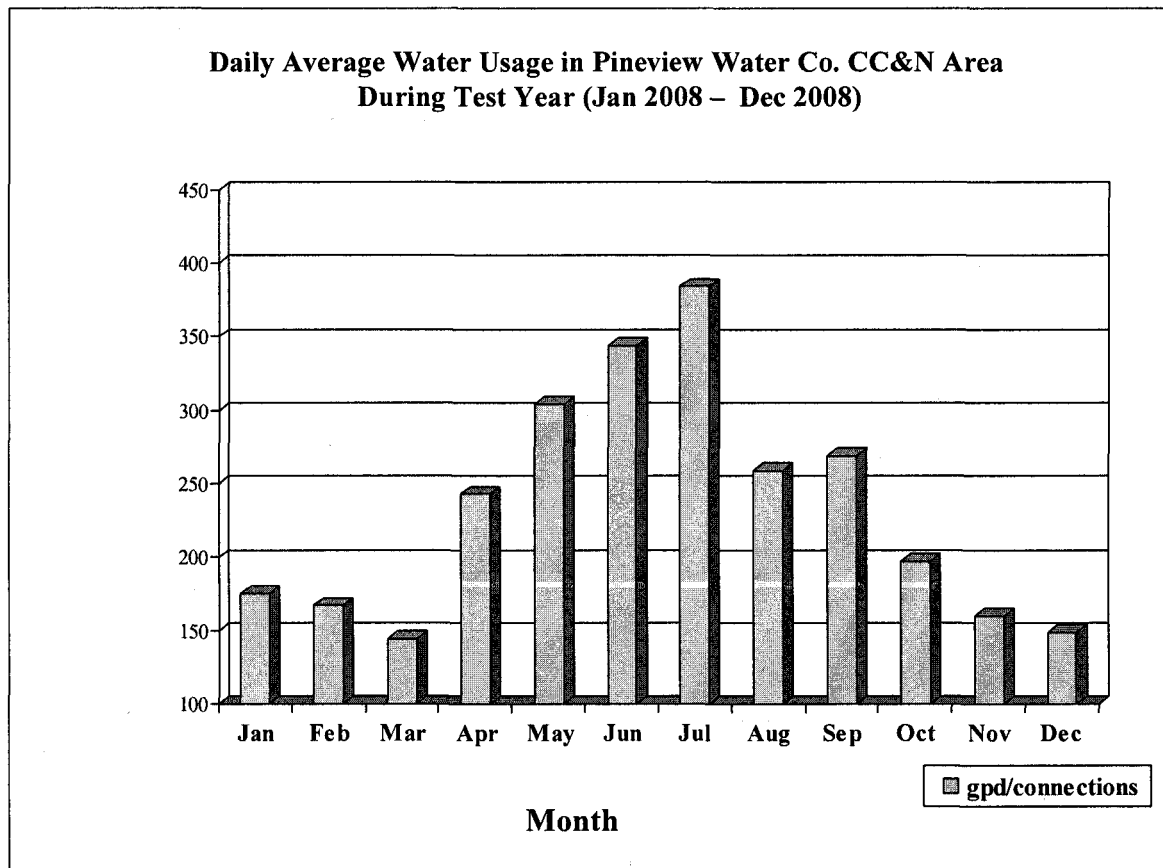


FIGURE 5
GROWTH IN PINEVIEW WATER DIVISION

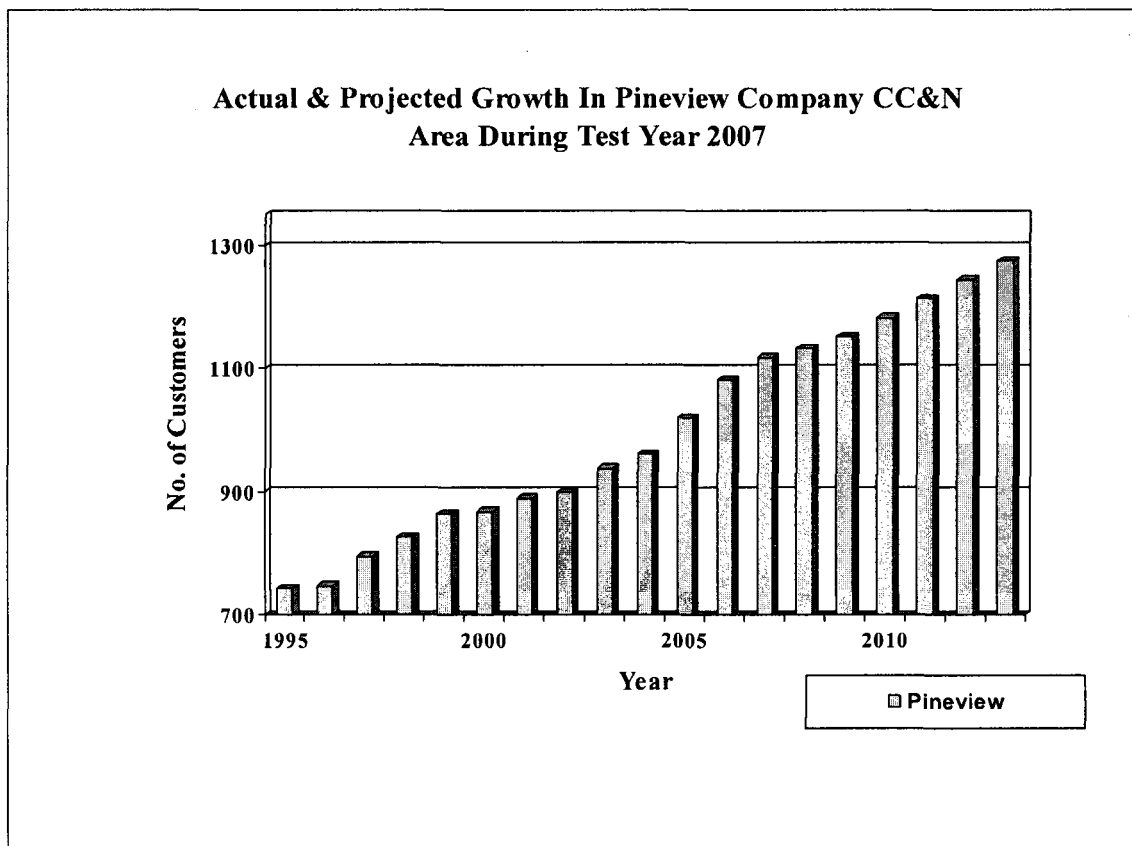


FIGURE 6

DEPRECIATION RATES FOR PINEVIEW WATER COMPANY

NARUC Acct #	Depreciable Plant	Approved Rate (Decision # 67989)	Proposed Rate (%)	Staff Recommended Rate (%)
303	Land & Land Rights	N/A	N/A	0
304	Structures & Improvements	3.33	3.33	3.33
305	Collection & Impounding reservoirs	2.50	N/A	2.50
306	Lake, River, Canal Intakes	2.50	N/A	2.50
307	Wells & Springs	3.33	3.33	3.33
308	Infiltration Galleries	6.67	N/A	6.67
309	Raw Water Supply Mains	2.00	N/A	2.00
310	Power Generation Equip Other	5.00	N/A	5.00
311	Pumping Equipment	12.5	12.5	12.5
320	Water Treatment		20.0	
320.1	Water Treatment Plants	3.33	N/A	3.33
320.2	Solution Chemical Feeders	20.0	N/A	20.0
330	Distribution Reservoirs & Standpipes		2.22	
330.1	Storage Tank	2.22	N/A	2.22
330.2	Pressure Tank	5.00	N/A	5.00
331	Transmission and Distribution	2.00	2.00	2.00
333	Services	3.33	3.33	3.33
334	Meters	8.33	8.33	8.33
335	Hydrants	2.00	2.00	2.00
336	Backflow Prevention Devices	6.67	N/A	6.67
339	Other Plant & Misc Equipment	6.67	6.67	6.67
340	Office Furniture & Equipments	6.67	6.67	6.67
340.1	Computer Software	20.00	N/A	20.00
341	Transportation Equipment	20.00	20.00	20.00
342	Store Equipments	4.00	N/A	4.00
343	Tools, Shop & Garage Equipments	5.00	5.00	5.00
344	Lab equipments	10.00	N/A	10.00
345	Power operated equipments	5.00	5.00	5.00
346	Communication Equipments	10.00	10.00	10.00
347	Miscellaneous Equipment	10.00	10.00	10.00
348	Other Tangible Plant	-----	N/A	